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PROSPECTUS

GAF Corporation

MAY 23 1972

MAY 10

650,000 Shares

Common Stock

(Par Value $1 Per Share)

Plan for the Sale of Restricted and Unrestricted Common Stock to Employees Who Perform Executive, Administrative or Supervisory Functions (the "Stock Purchase Plan").

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

GAF Corporation (the "Company") is offering by this Prospectus a maximum of 650,000 shares of its Common Stock to those key employees of the Company and its subsidiaries who may from time to time be designated as eligible to purchase shares pursuant to the Stock Purchase Plan of the Company described in this Prospectus. This offer is made at the price and on the terms and conditions contained in a letter agreement which will be entered into by the Company and the offeree at the time an offer is made.

This Prospectus is also applicable to resales or offers, if any, of the shares covered by the Plan by purchasers or their transferees in the event that it might be deemed, the Company not so conceding, that any purchaser or his transferee may be an underwriter as defined in the Securities Act of 1933, as amended, with respect to any such shares as may be purchased by him and in the event that he may effectuate sales of such stock under circumstances requiring a prospectus.

In the event that any of the shares covered by the Plan are reacquired by the Company from purchasers pursuant to the terms thereof, this Prospectus is also applicable to offers or sales, if any, by the Company to the public of such shares on the New York Stock Exchange at the then current market prices.

The Common Stock of the Company is listed on the New York Stock Exchange. The additional 650,000 shares of Common Stock as to which this Prospectus relates have also been listed on the New York Stock Exchange, subject to official notice of issuance.

No person has been authorized by the Company to give any information or to make any representations not contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been so authorized. This Prospectus does not constitute an offer of Common Stock in any State or other jurisdiction to any person to whom it is unlawful to make such offer in such State or other jurisdiction.

The date of this Prospectus is May 10, 1972

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The Company has filed a Registration Statement in respect of the Common Stock to which this Prospectus relates with the Securities and Exchange Commission, Washington, D. C. 20549 under the Securities Act of 1933, as amended. This Prospectus does not contain all the information set forth in the Registration Statement, certain portions of which have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The information so omitted may be obtained in the Commission's principal office in Washington, D. C. upon payment of the fees prescribed by the Commission.

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Except where otherwise indicated, this Prospectus speaks as of its date of issue. Statements contained in this Prospectus as to the contents of any document referred to are not necessarily complete, and in each instance reference is made to the copy of the document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by this reference.

GENERAL

The Company was incorporated in Delaware in 1929 as American I.G. Chemical Corporation and changed its name to General Aniline & Film Corporation in 1939 and to GAF Corporation in 1968. References to the Company, unless the context otherwise requires, include GAF Corporation and its consolidated subsidiaries.

In 1942 over 90% of the Company's then outstanding stock was vested by the Federal Government under the Trading with the Enemy Act. After recapitalization of the Company's stock in 1964, the stock owned by the Federal Government was sold in a public offering in March 1965.

Since 1965, the Company has made a number of acquisitions pursuant to which it became engaged in the manufacturing, mining, distributing and selling of various building materials, floor coverings and industrial products and expanded the scope of its traditional dyestuff and chemical business and photo products and business systems operations (see "Description of Business—Certain Significant Developments since 1965").

The principal executive offices of the Company are located at 140 West 51st Street, New York, New York 10020, telephone number (212) 582-7600.

USE OF PROCEEDS

The net proceeds from the sale, from time to time, of the Common Stock will be added to the general funds of the Company.

CAPITALIZATION

The capitalization of the Company as of April 2, 1972 was as follows:

DEBT(1):	
Debt due within one year:	
Current portion of long-term debt	$ 11,307,000(2)
Sundry short-term indebtedness	38,012,000
Total debt due within one year	49,319,000
Long-term debt (excluding current portion):	
5% Convertible Subordinated Notes due April 1, 1994 with annual prepayments of $10,000,000 beginning April 1, 1990, less $100,000 held in treasury	49,900,000
5⅞% Sinking Fund Debentures due December 1, 1991 with annual sinking fund payments of $2,500,000 beginning December 1, 1972, less $4,470,000 held in treasury	45,530,000
Notes due May 1, 1974 with quarterly installments of $2,500,000 (interest rate at ¼ of 1% above floating prime)	12,500,000
Notes due September 15, 1976 with quarterly installments of $1,000,000 beginning March 15, 1973 (interest rate at floating prime through December 31, 1972 and increasing at specified dates thereafter to a maximum of ½ of 1% above floating prime)	15,000,000
5¼% Convertible Subordinated Notes due April 1, 1983 with annual prepayments of $200,000 on April 1, 1973 through 1982 and balance of $1,800,000 payable April 1, 1983	3,600,000
3⅝% to 4¼% City of Annapolis, Missouri, industrial revenue bonds, annual rental of approximately $385,000 is payable until September 30, 1983 to cover principal and interest	3,455,000
Other notes, with interest at 5⅜% to 9% and maturing at various dates to 1986	3,835,000
Total long-term debt	133,820,000
Total debt	$183,139,000
SHAREHOLDERS' EQUITY:	
Preferred Stock, $1 par value, authorized 6,000,000 shares; $1.20 convertible series outstanding—3,150,743 shares at assigned value of $1.25 per share(3)	$ 3,938,000
Common Stock, $1 par value, authorized 25,000,000 shares, issued—13,670,598.5 shares, including 17,209 shares held in treasury(4)(5)	13,671,000
Paid-in surplus	51,018,000
Retained earnings(1)	236,540,000
Total shareholders' equity	$305,167,000
TOTAL SHAREHOLDERS' EQUITY AND LONG-TERM DEBT (excluding current portion)(6)	$438,987,000

(footnotes on following page)

Notes:

(1) For a description of certain restrictions on the payment of dividends contained in certain of the agreements relating to such debt, and information as to the conversion rights with respect to the 5% Convertible Subordinated Notes due April 1, 1994 and the 5½% Convertible Subordinated Notes due April 1, 1983 see Note 6 of Notes to Consolidated Financial Statements.

(2) Includes $1,000,000 aggregate principal amount of 4⅞% Notes due June 30, 1972, and $9,500,000 aggregate principal amount of notes due in installments of $2,000,000 on May 1, 1972 and $2,500,000 on each of August 1, 1972, November 1, 1972 and February 1, 1973.

(3) Does not include 700 shares reserved for issuance in connection with options assumed pursuant to the merger with The Ruberoid Co. and 3,711 shares reserved for payment of deferred stock awards under the Incentive Compensation Plan.

(4) Does not include: 3,943,943 shares reserved for issuance upon conversion of the $1.20 Convertible Preferred Stock outstanding or reserved for issuance; 1,814,546 shares issuable upon conversion of the 5% Convertible Subordinated Notes due April 1, 1994; 132,312 shares issuable upon conversion of 5½% Convertible Subordinated Notes due April 1, 1983; and 542,650 shares issuable pursuant to options under the Company's stock option plans (options covering 158,800 shares were outstanding at April 2, 1972).

(5) Does not give effect to issuance of 439,000 shares of Common Stock reserved for issuance under the Stock Purchase Plan at April 2, 1972. The balance of the shares (211,000) covered by the Stock Purchase Plan had been issued at such date. See "Description of Stock Purchase Plan".

(6) The Company owns 49% of the common stock of Chemical Developments of Canada, Limited. The Company also owns 49% of Sawyer's Asia Limited, an Indian corporation, and 100% (effectively) of Consolidated Reprographics, Ltd., an Australian corporation. (See Note 1 of Notes to Consolidated Financial Statements.)

For information concerning the Company's obligations under long-term leases of real property and equipment see Note 9 of Notes to Consolidated Financial Statements.

GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CONSOLIDATED INCOME

The following five-year statement of consolidated income (see Note A) has been examined by Haskins & Sells, independent certified public accountants, as stated in their opinion included elsewhere in this Prospectus. This statement should be read in conjunction with the other consolidated financial statements and the notes thereto included elsewhere in this Prospectus.

	Year Ended December 31,				
	1971	1970	1969	1968	1967
	(In Thousands of Dollars)				
Revenues:					
Net sales (Note B)	$683,762	$583,482	$592,066	$554,264	$504,584
Other income—net	1,601	1,651	1,872	1,911	2,749
	685,363	585,133	593,938	556,175	507,333
Cost and Expenses:					
Cost of products sold (Note B)	477,236	419,844	417,302	385,121	356,115
Distribution and selling (Note B)	112,216	100,306	101,272	91,995	81,072
Research and development	12,649	12,656	13,261	12,291	12,368
Administrative and general (Note B)	31,229	22,430	21,315	19,752	20,218
Interest on borrowed capital (Note E)	10,359	11,641	10,712	8,292	6,340
Operating loss (income) of discontinued operations (Note B)	4,343	2,644	976	157	(2,221)
	648,032	569,521	564,838	517,608	473,892
Income before Taxes, Minority Interest and Extraordinary Items	37,331	15,612	29,100	38,567	33,441
Provision (Credit) for Federal and Foreign Income Taxes (Note 5):					
Current	11,384	2,681	6,336	15,206	10,993
Deferred	4,531	4,890	5,375	384	2,829
Deferred investment tax credit	(689)	(567)	2,147	1,745	308
	15,226	7,004	13,858	17,335	14,130
Income before Minority Interest and Extraordinary Items	22,105	8,608	15,242	21,232	19,311
Minority Interest	198	215	—	—	350
Income Before Extraordinary Items	21,907	8,393	15,242	21,232	18,961
Extraordinary (Charges) Credits (Note B)	(3,433)	6,300	(4,174)	—	—
Net Income (Note D)	$ 13,474	$ 14,693	$ 11,068	$ 21,232	$ 18,961
Depreciation, amortization and depletion charged to cost and expenses (Note 4)	$ 23,393	$ 20,923	$ 19,973	$ 17,865	$ 17,024
Earnings applicable to Common Stock:					
Net income, as above	$ 13,474	$ 14,693	$ 11,068	$ 21,232	$ 18,961
Less Preferred Stock dividend requirements (Note C)	3,802	3,795	3,793	3,774	3,753
Earnings applicable to Common Stock	$ 9,672	$ 10,898	$ 7,275	$ 17,458	$ 15,208

(Statement of Consolidated Income continued on following page)

	Year Ended December 31,				
	1971	1970	1969	1968	1967
Earnings per common share (Note C):					
Income before extraordinary items	$1.33	$ .34	$ .85	$1.31	$1.14
Extraordinary items	(.62)	.46	(.31)	—	—
Net income	$ .71	$ .80	$ .54	$1.31	$1.14
Earnings per common share—assuming full dilution (Note C):					
Income before extraordinary items	$1.19	$ .38	$ .83	$1.23	$1.10
Extraordinary items	(.43)	.41	(.28)	—	—
Net income	$ .76	$ .79	$ .55	$1.23	$1.10
Cash dividends declared:					
Per preferred share	$1.20	$1.20	$1.20	$1.20	$ .86⅓
Per common share	$ .40	$ .40	$ .40	$ .40	$ .40
Weighted average number of shares of Common Stock outstanding (in thousands)	13,609	13,594	13,499	13,346	13,339

Numerical note references are to notes to consolidated financial statements included elsewhere in this Prospectus.

NOTE A:

The statement of consolidated income includes for all periods amounts applicable to The Ruberoid Co. and its subsidiary. Ruberoid was acquired in 1967 on the basis of 26.1% (acquired by the Company for cash) being accounted for as a purchase and the remaining 73.9% (acquired by the Company in exchange for shares of $1.20 Convertible Preferred Stock) being accounted for as a pooling of interests.

The results of operations of Shelby Business Forms, Inc., purchased in June 1967, The L. L. Cook Company and CoMo Photo Company, purchased in June 1969, certain photo finishing plants and the business and assets relating thereto, purchased in March 1971, and Helioprint Hellas, S.A., a Greek subsidiary, purchased in July 1971, have been included in the statement of consolidated income from the dates of acquisition. These acquisitions did not significantly affect revenues or net income in the years of acquisition.

The results of operations of Consolidated Reprographics Ltd., an Australian subsidiary, in which 60% ownership was acquired in 1969 and subsequently increased to 100% (effectively) at December 31, 1971, are included in the statement of consolidated income for 1970 and 1971. The Company's equity in he net income of this subsidiary for the period prior to consolidation (last six months of 1969), $61,000, is included in Other Income for 1970.

The Company changed in 1971 to the equity method of accounting for an investment in a 49% owned ompany, Chemical Developments of Canada, Limited. See Note 1 of Notes to Consolidated Financial tatements for further information.

Prior to 1970, the fiscal years of the Company's foreign subsidiaries generally ended on November). In 1970, the fiscal year-end of most of these subsidiaries was changed to December 31, and the 970 statement of consolidated income includes the results of their operations for the thirteen months then ided. The consolidated net income of such companies for the thirteenth month is not significant in lation to consolidated net income.

(Notes continued on following page)

NOTE B:

Extraordinary (charges) credits consist of the following.

Year ended December 31, 1969	
Provision for estimated loss on disposal of certain plant facilities and related costs, less estimated applicable income taxes, $3,331,000	$ (4,174,000)
Year ended December 31, 1970:	
Net gain on sale of Texas Amiben production facilities, abandonment of related production facilities, and renegotiation of the Amiben supply contract, less estimated applicable income taxes, $1,044,000	$ 2,377,000
Net gain on sale of headquarters of English subsidiary, less estimated applicable income taxes, $143,000	3,923,000
Total	$ 6,300,000
Year ended December 31, 1971:	
Provision for estimated loss on disposal of certain plant facilities and related costs, less estimated reduction of state and local income taxes, $477,000	$(18,975,000)
Less estimated credits (provision) for Federal income taxes and investment tax credit:	
Current	716,000
Deferred	8,570,000
Excess of investment tax credit recapture over unamortized deferred investment tax credit, $804,000	(13,000)
Total	9,273,000
Estimated net loss	(9,702,000)
Net gain on translation of foreign currencies (Note 1)	992,000
Other items—net (principally reversal of the excess portion of the 1969 provision for loss on disposal of facilities)	277,000
Total	$ (8,433,000)

The Company's chlorine-caustic operations were discontinued in September 1971, the ethylene oxide and Calcilite® operations were discontinued in November 1971, and the related production facilities are expected to be disposed of in 1972. The estimated net loss and related costs resulting from the proposed disposal of these facilities and an unused quarry, less a gain on the 1971 sale of certain woodlands, amounted to $9,702,000 as shown in the above summary. The anticipated proceeds upon sale of the applicable facilities amounts to $5,500,000, the major portion of which represents the selling price for the chlorine-caustic facilities specified in a memorandum of agreement, which has been signed by the Company and the prospective purchaser, to enter into a definitive contract.

The following is a summary of the operating loss (income) (see (a) below) of the discontinued operations:

	Year Ended December 31,				
	1971	1970	1969	1968	1967
	(In Thousands of Dollars)				
Net sales	$15,266	$15,224	$14,188	$15,284	$16,288
Cost of products sold	18,051	16,149	13,503	13,574	12,389
Directly related expenses	1,558	1,719	1,661	1,867	1,678
Total	19,609	17,868	15,164	15,441	14,067
Operating loss (income) (a)	$ 4,343	$ 2,644	$ 976	$ 157	$(2,221)

(a) The Company reports its operations on the basis of responsibility accounting, whereby the various lines of business are measured after the assignment of only those items of income

(Notes continued on following page)

and expense for which each line of business is directly responsible. Accordingly, the amounts of operating loss (income) as shown above are before the allocation of interest expense, the cost of functions that serve more than one line of business, miscellaneous expense and income items, and income tax effect.

The statement of consolidated income as previously presented for 1970, 1969, 1968, and 1967 has been restated to show separately the operating loss (income) of operations discontinued in 1971.

Reference is made to note 2 of notes to consolidated financial statements for further information.

NOTE C:

Earnings per common share were computed by dividing income before extraordinary items and net income, as adjusted for Preferred Stock dividend requirements, by the weighted average number of shares of Common Stock outstanding during each year. The Preferred Stock dividend requirements for 1971, 1970, 1969 and 1968 are the actual dividends paid and for 1967 is the amount required assuming the Ruberoid merger had occurred on January 1, 1967. The computations of earnings per common share also comprehended the assumed exercise of options granted subsequent to May 31, 1969 for the purchase of shares of Common Stock where the effect thereof would be dilutive.

Earnings per common share—assuming full dilution were computed on the assumption (where the effect thereof would be dilutive as to either income before extraordinary items or net income on a per share basis) that the convertible Preferred Stock, 5% Convertible Subordinated Notes (issued in 1969) and 5½% Convertible Subordinated Notes outstanding at the end of each year were converted into shares of Common Stock at the beginning of each year or date of issuance if later, and that the conversions of Preferred Stock into Common Stock which occurred during 1968, 1969 and 1971 had occurred at the beginning of the applicable year. As to the convertible subordinated notes, income before extraordinary items and net income were adjusted for purposes of these computations to eliminate the interest thereon net of its income tax effect. The computations of fully-diluted earnings per common share also comprehended the assumed exercise of options for the purchase of shares of Preferred and Common Stock where the effect thereof would be dilutive.

NOTE D:

A change, as of January 1, 1967, in the method of determining pension costs resulted in a reduction of net income for 1967 of approximately $700,000 ($.05 per common share). Changes, as recommended by the Company's consulting actuary, as of January 1, 1970, of an actuarial assumption and in the method of determining pension costs resulted in an increase in net income for 1970 of approximately $400,000 ($.03 per common share). A further such recommended change as of January 1, 1971 of actuarial assumptions resulted in an increase in net income for 1971 of approximately $300,000 ($.02 per common share).

Deferred income taxes have been provided in recognition of timing differences in reporting depreciation, executive incentive compensation, and sales of production payments relating to asbestos deposits, for income tax and financial statement purposes for each of the years 1967 through 1971. Effective January 1, 1968 the Company also recognized the tax effects of timing differences for other items of expense; this change in practice and other adjustments resulted in an increase in net income for 1968 of approximately $646,000 ($.05 per common share).

A change in the method of accounting for the investment tax credit increased income before extraordinary items and net income for 1971 by $1,068,000 ($.08 per common share, and $.05 per common share—assuming full dilution). Reference is made to note 5 of notes to consolidated financial statements for further information.

NOTE E:

Interest on borrowed capital is summarized as follows:

	Year Ended December 31,				
	1971	1970	1969	1968	1967
Interest on long-term debt ..	$ 8,218,000	$ 9,409,000	$ 8,506,000	$6,449,000	$4,969,000
Amortization of debt discount and expense	43,000	43,000	45,000	44,000	43,000
Other interest	2,098,000	2,189,000	2,161,000	1,799,000	1,328,000
Total	$10,359,000	$11,641,000	$10,712,000	$8,292,000	$6,340,000

The reduction in net income for 1969 is attributable to a reduced rate of sales growth, particularly evident during the second half of the year, combined with higher depreciation, increased interest costs, higher labor costs and heavier than usual expenses throughout 1969 for new plant start-ups and new product introductions.

The reduction in income before extraordinary items for 1970 is attributable in large part to a decline in sales, especially in the areas of photo products and some of the Company's chemical products, caused by the general decline in the national economy. Income from photo products was further affected by operating problems incurred in introducing new technology and equipment relating to the manufacture of photographic film and paper. The earnings of the Company's chemical products group were also affected by (i) difficulties encountered in connection with the expansion of the Company's facility in Linden, New Jersey, for the manufacture of chlorine and caustic soda, which caused unanticipated costs and a delay of full utilization of the facility and (ii) reduced purchases during 1970 by the Company's sole customer for Amiben, resulting from such customer having developed an inventory imbalance in such product. (Production of chlorine and caustic soda was discontinued as of September 1971. See Note B to Statement of Consolidated Income.) In addition, the Company implemented a planned reduction in all its inventories. As a result of this inventory reduction program, some chemical and all photo product plants were operated at lower levels, with a consequent effect upon the profitability of such plants.

The increase in income before extraordinary items for 1971 is almost exclusively attributable to an increase in sales and profit margins in the areas of building and floor products and photo products. Sales of building and floor products were aided by a substantial increase in housing starts and building products also benefited from strong demand for replacement roofing. Major increases in photo product sales were in the consumer photo division, particularly color print film, VIEW-MASTER® products and hardgoods, primarily movie and still cameras. Photo product sales were also favorably affected by the acquisition of certain photo finishing plants and the business and assets relating thereto (see "Description of Business—Photo Products—Recent Developments"). The increase in administrative and general expenses resulted from expenses of newly acquired operations, a provision for incentive compensation in 1971 where none was earned in 1970, increased legal and professional fees and normal increases in line with the Company's management development and growth.

THREE MONTH (UNAUDITED) SUMMARY OF INCOME

The following unaudited summary of financial information for the quarters ended April 4, 1971 and April 2, 1972 reflects, in the opinion of the Company, all adjustments considered necessary (consisting only of normal recurring accruals) to present fairly the results of operations for the stated quarterly periods. Results for the quarter ended April 2, 1972 are not necessarily indicative of the results that will be realized for 1972:

	(In thousands of dollars except per share amounts) First Quarter Ended	
	April 4, 1971(a)(b)	April 2, 1972(a)(d)
Gross Revenues	$148,817	$173,868
Net income	3,263	5,181
Earnings applicable to Common Stock after Preferred Stock dividend requirements	2,314	4,230
Earnings per common share(c)	.17	.31
Earnings per common share—assuming full dilution(c)	.17	.28

(a) Interim accounting periods end on Sunday near the quarterly month-end.

(b) Net sales for the quarter ended April 4, 1971 have been restated to show the reduction applicable to the chlorine caustic, ethylene oxide and Calsilite operations discontinued in the latter part of 1971. The operating loss of discontinued operations for the quarter ended April 4, 1971 was approximately $991,000, or $.04 per common share.

(c) See Note C to the Statement of Consolidated Income.

(d) The change in the method of accounting for the investment tax credit, as explained in Note D to the Statement of Consolidated Income, resulted in an increase in net income for the quarter ended April 2, 1972 of approximately $217,000, or $.02 per common share.

PRICE RANGE OF COMMON STOCK; DIVIDENDS

The Company's Common Stock is listed on the New York Stock Exchange. The table below shows for the indicated periods the high and low sales prices of the Common Stock on the New York Stock Exchange.

The closing sale price of the Common Stock on the New York Stock Exchange on April 24, 1972 was $24½ per share. All price information contained in the table below was obtained from the National Quotation Bureau, Inc.

	Sales Prices	
	High	Low
1967	27⅛	18⅝
1968	33½	18¾
1969	31⅛	14¾
1970		
First Quarter	16⅞	12¼
Second Quarter	13¼	8⅛
Third Quarter	12⅜	7¼
Fourth Quarter	13	9
1971		
First Quarter	15⅞	12⅜
Second Quarter	15½	12½
Third Quarter	21⅛	12¾
Fourth Quarter	24⅝	18⅛
1972		
First Quarter	27	22¼
Second Quarter (to April 24)	26¾	24⅛

The Company has paid quarterly dividends of 10¢ per share on its Common Stock for more than the past five years. Future dividends on the Common Stock will necessarily be dependent upon future earnings, the financial needs and condition of the Company and other factors. See "Description of Capital Stock" for information as to certain limitations on the payment of dividends and "Description of Business—New Economic Policy" for information as to dividend restraints in connection with the Government's economic stabilization program.

DESCRIPTION OF BUSINESS

The Company is engaged in manufacture and sale of: (i) chemicals; (ii) building materials; (iii) reproduction equipment, sensitized papers and forms used in business systems; (iv) photographic products; and (v) industrial products, including industrial felt and sound-deadening materials.

The following table sets forth for the periods indicated (i) net sales and (ii) income (loss) before income taxes, extraordinary items and unallocated corporate expenses, of the lines of business of the Company.

The Company reports its operations on the basis of responsibility accounting, whereby the various lines of business are measured after the assignment of only those items of income and expense for which each line of business is directly responsible. The Company's accounting system does not provide for the allocation of interest and other debt expense, the cost of functions that serve more than one line of business, and miscellaneous expense and income items.

	Year Ended December 31,				
	1971	1970	1969	1968	1967
			(000 Omitted)		
Net Sales (Note A)					
Chemicals	$145,788	$142,028	$151,149	$137,049	$128,836
Photo Products	177,765	137,750	145,282	135,374	117,006
Business Systems	80,553	83,904	74,790	69,637	62,950
Building Materials	232,981	176,086	175,728	168,203	154,461
Industrial Products	46,675	43,714	45,117	44,001	41,331
	$683,762	$583,482	$592,066	$554,264	$504,584
Income (Loss) before Taxes and Extraordinary Items (Note A)					
Chemicals	$ 20,719	$ 20,672	$ 23,733	$ 20,308	$ 18,948
Photo Products	4,432	(3,094)	6,661	13,020	8,055
Business Systems	2,440	4,466	4,313	4,751	4,811
Building Materials	39,150	18,197	16,601	17,336	12,483
Industrial Products	8,449	8,241	8,980	8,151	7,668
Direct Operating Margin	75,190	48,482	60,288	63,566	51,965
Operating Income (Loss) of Discontinued Operations	(4,343)	(2,644)	(976)	(157)	2,221
Unallocated Corporate Expenses	(33,714)	(30,441)	(30,212)	(24,842)	(21,095)
	$ 37,133	$ 15,397	$ 29,100	$ 38,567	$ 33,091

NOTE A:

Net Sales and Income (Loss) before Taxes and Extraordinary Items for years prior to 1971 have been restated for the transfer in 1971 of certain operations between product groups and to state separately the results of operations discontinued in 1971. Reference is made to Note B to the Statement of Consolidated Income for further information on discontinued operations.

The principal products, sources of supply, market position and recent developments with respect to the Company's five product groups are as follows:

Chemicals

Products

The Company's chemical products include the following:

Dyestuffs and Pigments—The Company's line of dyestuffs is primarily used in the textile industry and also in the leather and paper industries. Its broad range of organic pigments is used for coloring many different products, including rubber, plastics, printing inks, natural and synthetic textiles, paints and lacquers; *Surface-active agents*—Surface-active agents (or surfactants) possess detergent, emulsifying, dispersing and wetting properties and are used in the manufacture and compounding of detergents (primarily industrial), insecticides, pesticides, textiles, paper, leather, rubber, plastics and chemicals and in the production and refining of petroleum and mineral products; *High-Pressure Acetylene Derivatives*—The Company has developed and employs techniques for processing acetylene, a very explosive gas, under high pressure into a wide variety of acetylene derivatives, with uses in the manufacture of plastics, synthetic fibers, cosmetics, electroplating chemicals, pharmaceuticals, solvents and adhesives; *Specialty and Textile Chemicals*—These include bactericides and fungicides, brighteners, leather tanning and finishing agents, textile treating chemicals, flame retardants, antistats, ultraviolet absorbers, solvents, carbonyl iron powders and silver salts; *Industrial Organic Chemicals*—These compounds are used in the production of surfactants, dyestuffs, pharmaceuticals, defoliants, herbicides, growth regulators and other agricultural chemicals, plastic stabilizers, electroplating chemicals, and photosensitive and other chemicals; and *Latex Products*—These products include rubber and polymer latices for rug backings, fabric coatings, and paper coatings; latex foam backing for drapery fabrics; and latex adhesives for fabric lamination.

The Company's chemical products are sold to users principally by its own sales personnel and, in some cases, by independent distributors.

Raw Materials

The raw materials used in the production of the Company's chemical products are purchased from a large number of outside sources, in many cases pursuant to supply contracts which are, in general, standard for the industry. Certain of the Company's raw material requirements, including acetylene, are obtained from single or limited sources pursuant to supply contracts. The Company considers these sources to be stable. With respect to acetylene, which is supplied to the Company at two locations by separate sources, were either of the sources to be discontinued the development of alternate sources of supply could involve interruption of production and would probably result in substantially increased costs.

Market Position

The Company believes that it ranks among the principal producers of dyestuffs in the United States although it faces competition from many companies, some of which are substantially larger than the Company. In addition, competition from foreign sources is severe.

The Company is the sole United States producer of a complete line of high pressure acetylene derivatives, although it competes with foreign manufacturers.

In the balance of its chemical business the Company faces competition from many companies, certain of which are substantially larger than the Company and offer a broader range of products. The Company believes that the great size and diversified nature of the chemical industry make it impossible to give a meaningful estimate of the relative position of the Company in this field.

Recent Developments

Since 1962, the Company has been manufacturing a herbicidal product called chloramben (also known as Amiben) for and pursuant to specifications furnished by Amchem Products Inc. ("Amchem"). In 1968, at Amchem's request, the Company erected a new facility for the production of Amiben at Texas City, Texas. In 1970 the Company sold its Amiben manufacturing facility to Amchem and, pursuant to contractual arrangements, continues to use the facility to produce the Amiben requirements of Amchem. Amchem owns patents covering Amiben and is the Company's only potential customer for such product. Amiben faces competition from herbicides of other companies and in the event Amchem's requirements for Amiben should decline substantially, such decline would have an adverse effect on the Company's earnings. In this connection, see text following "Statement of Consolidated Income."

In March 1972, the Company acquired the assets and business of M. Ames Chemical Works, Inc., a small manufacturer primarily of silver nitrate, which is used in the photographic and other industries.

See Note B to Statement of Consolidated Income for effect of discontinuance of chlorine-caustic and ethylene oxide operations.

Building Materials

Products

The building materials portion of the Company's business includes the manufacture of the following products: asphalt shingles; built-up roofing, consisting of organic and asbestos-based felts; T/NA 200®, a single-ply, water-proof roofing material made by laminating water-proof film to asbestos felt; asphalt roof coatings and plastic cements; organic and asbestos dry felt produced primarily for use by the Company's roofing and flooring plants; mineral fiber roof shingles and siding; mineral fiber building board; mineral fiber decorative brick; mineral fiber canal bulkhead designed and processed to prevent land erosion by either salt or fresh waters; insulation (purchased for resale); and asphalt and vinyl asbestos floor tiles, adhesives, cove bases and vinyl sheet floor coverings.

The Company sells its products through its own salesmen to wholesalers, retailers, applicators, contractors and builders. Such sales are limited, in the case of building materials other than floor tiles and sheet vinyl, to states east of the Rocky Mountains. Its products are also supplied, on a bid basis, to Federal and State agencies.

Raw Materials

A major portion of the raw materials used for the manufacture of building materials is purchased from a large number of outside sources and the balance is produced by the Company, including mineral granules, which are used to surface asphalt roofing products.

Raw material ingredients for dry felt, normally in good supply, are rags, waste paper, pulpwood and wood flour, purchased in the open market at prices which are subject to fluctuation. Asphalt is purchased from major oil refineries and independent operators, in one case pursuant to a long term supply contract. The Company purchases the fiberglass material used for its insulation products from one source which it considers to be a stable one.

Market Position

The building materials industry is highly competitive. The Company believes that it is one of the leading producers of asphalt roof shingles and built-up roofing, mineral fiber roof and siding shingles, mineral fiber flat sheets, canal bulkhead and vinyl floor coverings.

Recent Developments

As a result of the settlement in May 1970 of a lawsuit commenced in 1966 against The Ruberoid Co., the Company entered into a license agreement with Congoleum Industries, Inc. whereby the Company was licensed to manufacture and sell foamed vinyl flooring which uses a chemical embossing process. In exchange for such license, the Company agreed to pay a royalty equal to 5% of the net sales of such product for 13 years. Royalties paid under this agreement for 1970 and 1971 amounted to approximately $9[illegible]5,000 and $1,151,000, respectively.

Business Systems

Products

The business systems portion of the Company's operations consists primarily of the production and sale of diazo reproduction equipment and business forms. Other products include electrostatic copying machines, toner and paper, sensitized reproduction materials and micrographic film systems.

The diazo reproduction process, while suitable for copying engineering and architectural drawings because of its capacity to make larger copies, is limited in general applicability by the need for a translucent master sheet printed only on one side, and in the case of dry machines using ammonia vapor, the need to vent such vapor.

The business systems products are sold in part directly by the Company's own employees and in part through independent dealers. The machines sold by the Company are serviced in part by the Company's own employees and in part by employees of such independent dealers, who are trained by the Company.

Raw Materials and Supplies

The raw materials and supplies used in the manufacture of these products are purchased from several sources and, although in some cases parts are built to the Company's specifications, alternate sources for such parts are available.

Market Position

The Company believes that it is one of the two leading domestic producers of diazo reproduction equipment and paper.

The field of business forms produced pursuant to customer specifications is dominated by another company. The business forms products of the Company are not sold nationwide.

The office copier field is presently dominated by another company. That company's equipment produces copies on ordinary paper, whereas the equipment of the Company, and substantially all other companies with which it also competes, require specially treated paper.

Photo Products

Products

The photo products sold by the Company consist of the following: *Consumer Photo Products*—including color and black-and-white film (print film, slide film and movie film), still and motion picture cameras and projectors, slide viewers and scenic slide assortments, and VIEW-MASTER® and TALKING VIEW-MASTER® stereo reels and viewers; *X-ray Products*—including X-ray film and developing chemicals for medical, dental and industrial use; *Graphic Arts Products*—including film, film bases, and chemicals used in photolithography, rotogravure printing, offset printing, photographic type-setting and photo-engraving; *Industrial Products*—including film and paper employed in oscillograph recording, mapping and tracing; and *Professional Photography Products*—including black-and-white and color still film, color motion picture film, and photographic papers. Professional photographic applications include press and industrial photography and professional portraiture.

The Company also offers consumer photo finishing services, and in this connection, in March 1971, acquired the thirteen photo finishing plants and the business and assets relating thereto of Cadence Industries Corporation, for a cash purchase price of approximately $15,000,000 and the assumption of certain liabilities in connection with such business. Such plants, business and assets are operated by the Photo Service Division of the Company.

Distribution of the Company's consumer and professional photo products is made through a field sales force consisting in part of the Company's own employees and in part of independent sales representatives or distributors, primarily to mass merchandisers and also to photo specialty shops. The Company's graphic and X-ray photo products are sold in part to distributors, and in part, along with other industrial photo products, directly to users.

Lenco Photo Products, Inc., a subsidiary which is a separate marketing component of the Photo Products Group, distributes slide projectors manufactured by the Company and other photographic supplies and equipment manufactured by others, including lenses, 8mm. home movie cameras and projectors.

Supplies

The Company purchases from several sources the raw materials and certain components (some of which are manufactured pursuant to its specifications), for the film, paper, slide and motion picture projectors and viewers manufactured by it. Silver, which is one of the more important raw materials used in the manufacture of photographic film and paper, is purchased on the open market at prices subject to wide fluctuation. The still and motion picture cameras sold by the Company are manufactured specially for the Company by companies located in Japan and Hong Kong. Acetate film base used by the Company is manufactured by it. Other film base and raw paper used by the Company are purchased from domestic and foreign sources.

Market Position

In general, the Company offers a broad range of photographic products, which is, however, considerably narrower than that offered by the dominant company in the field. In the photographic market in the United States, the same large company is generally predominant and the Company has only a small share of this market. In addition, competition from foreign sources is increasing.

The Company believes it is the leading producer of stereo viewers and reels.

Recent Developments

The Company's film has been named the official film of Disneyland and Walt Disney World where the Company has established Photo Exhibit Centers and where the Company's photo products are sold through more than 50 retail photo outlets.

In addition, as described above, in March 1971, the Company purchased the consumer photo finishing business and assets relating thereto of Cadence Industries Corporation.

The extensive operating losses experienced in 1970 by the Company's Photo Products Group were primarily attributable to operating problems experienced at the Binghamton, New York plant in connection with new film and paper coating machines installed in earlier years and initial expenses related to the new products for which the equipment was installed. Substantial progress has been made in resolving these problems. A majority of the products produced at the Binghamton plant were introduced during the last four years.

Industrial Products

Products

The Company's industrial products include asbestos fibers, unsaturated felts, automotive sound deadening and insulation felts and boards, asbestos papers and pipe coverings, electrical insulating tapes, mineral granules and inert fillers, pressed wool felts, synthetic fiber felts, papermakers felts, filter devices and custom designed industrial products. The Company's industrial products are sold to users in part by its own salesmen and in part by independent distributors.

Raw Materials and Supplies

Basic raw materials and supplies used in the manufacture of the Company's industrial products are all normally in good supply although prices are subject to fluctuation.

Market Position

The market for industrial products is highly competitive. The Company believes that the great size and diversified nature of the industrial products industry make it impossible to give a meaningful estimate of the relative position of the Company in this field.

International Operations

The Company's international operations, which are consolidated in the net sales and income for the Company's five lines of business contained herein, include foreign distribution of the products manufactured by the Company in the United States and abroad (principally its business systems products), and by other suppliers. These operations are conducted primarily in Western Europe. For 1971, the Company's international operations, including export sales from domestic operations, accounted for approximately 13% of its net sales.

The Company's investments in foreign operations are subject to the United States Government's Foreign Direct Investment Regulations. These regulations cause the Company, and other companies with sizeable foreign operations, to seek alternate means of financing international growth. To date, foreign government currency regulations have had no material effect on the Company's foreign operations.

Backlog

The Company does not consider backlog to be a material factor in any of its five lines of business.

Research and Development

In 1971, the Company spent approximately $12,650,000 for research and development in connection with the discovery and development of new products and processes, the improvement and refinement of existing products and processes, and the development of new uses for existing products. At December 31, 1971, 317 professional employees were engaged in Company sponsored research and development. The Company does not classify such employees on the basis of the types of research and development undertaken.

Certain Significant Developments Since 1965

In April 1966 the Company acquired for cash three associated companies: Burkart-Schier Chemical Co., Checkmate Chemicals, Inc. and Southeast Polymers, Inc. Each of these companies was engaged in some aspect of serving the southern textile industry, with particular emphasis on the carpet industry. All three companies have since been absorbed into the Company.

During 1966 the Company acquired for cash all of the stock of Hall Harding Limited, a British Corporation in the reproduction field. On January 1, 1968, the name Hall Harding Limited was changed to GAF (Great Britain) Limited.

In October 1966, in exchange for 1,325,483 shares of Common Stock, the Company acquired the assets and business of Sawyer's Inc., an Oregon corporation engaged in the design, manufacture and sale of photographic slides, slide and movie projectors, slide viewers and stereo reels and viewers.

In December 1966 the Company sold through underwriters $50,000,000 aggregate principal amount of 5⅞% Sinking Fund Debentures due December 1, 1991. The Debentures are entitled to mandatory sinking fund payments, commencing in 1972, of $2,500,000 annually and are redeemable by the Company at prices set forth in the related Indenture, except that prior to December 1, 1976 no redemption may be made from or in anticipation of moneys borrowed at an interest cost to the Company of less than 5.95%.

In May 1967 the Company's Certificate of Incorporation was amended to increase authorized Common Stock from 20,000,000 to 25,000,000 shares and to authorize the issuance of 6,000,000 shares of Preferred Stock and a series thereof designated $1.20 Convertible Preferred Stock initially consisting of 3,188,520 shares.

In May 1967 the Company purchased 1,090,200 shares of capital stock of the Ruberoid Co. (approximately 26% of Ruberoid's outstanding stock) for cash at a price of $27.50 per share, or an aggregate of $29,980,500, and on May 26, 1967 Ruberoid was merged into the Company, which is the surviving corporation and the aforementioned 1,090,200 shares of capital stock of Ruberoid were thereupon cancelled. Ruberoid was engaged in manufacturing, mining, distributing and selling various building materials, industrial products and floor coverings. In connection with the merger, the Company issued to the stockholders of Ruberoid 3,095,382 shares of $1.20 Convertible Preferred Stock. Each such share of Convertible Preferred may be converted by the holder thereof at any time into 1.25 shares of the Company's Common Stock.

In June 1967 the Company purchased by tender offer substantially all of the stock of Shelby Business Forms, Inc., an Ohio corporation engaged in the manufacture and marketing of printed business forms.

In April 1968 the Company's name was changed from General Aniline & Film Corporation to GAF Corporation.

In June 1968 the Company acquired for cash all of the capital stock of [illegible] Limited and International Camera Imports Limited, Canadian corporations which since 1946 had been exclusive distributors of Sawyer's products in Canada.

In June 1969 the Company acquired for approximately $9,000,000 all the capital stock of The L. L. Cook Company, a Wisconsin corporation, and CoMo Photo Company, an Iowa corporation, which were engaged in the photo finishing business in the midwest. The acquired companies were merged into the Company at the end of such year.

In June 1969 the Company sold to The Chase Manhattan Bank (National Association), as Trustee or Agent for Various Accounts, $50,000,000 aggregate principal amount of 5% Convertible Subordinated Notes, due April 1, 1994 and convertible into Common Stock at the price, subject to adjustment, of $27.50 per share. On April 1 of 1990 through 1993, the Company is required to prepay 20% or more of the aggregate principal amount of the Notes outstanding on February 1, 1990. The Company may make an optional prepayment, without premium, in each of such years equal to the mandatory prepayment, and, commencing in 1979, may prepay the Notes in payments of $1,000,000 or more at prices set forth in the related Loan Agreement.

In March 1971 the Company acquired the thirteen consumer photo finishing plants and the business and assets relating thereto of Cadence Industries Corporation for a cash purchase price of approximately $15,000,000 and the assumption of certain liabilities in connection with such business.

The Company acquired, for cash in 1969, a 60% ownership in Consolidated Reprographics, Ltd., an Australian company engaged in the manufacture of sensitized materials and importation and sale of drawing office supplies. The ownership was subsequently increased to 100% (effectively) at December 31, 1971 through cash purchases of stock from minority stockholders.

In March 1972, the Company acquired the assets and business of M. Ames Chemical Works, Inc., a small manufacturer primarily of silver nitrate, which is used in the photographic and other industries.

Employees

At December 31, 1971 the Company employed 21,955 people. At such date, approximately 9,525 employees in the United States and Canada were represented by unions under contracts which are effective, in most cases, for one or two year periods. Employee relations at all the Company's plants have been generally satisfactory. However, in 1971 the Company experienced a 96 day work stoppage at its Rensselaer, New York plant arising out of contract renewal negotiations, and, in 1970, it experienced two extended work stoppages: a 77-day strike at the Mobile building products plant and a 54-day shutdown in the Tampa building products plant. The Company has in effect various benefit plans which form a comprehensive employee security program. These include the Company's Retirement Plan and group insurance arrangements covering life, accident, hospital, surgical and medical insurance. The Company and, in most cases, the employees contribute to the costs of the insurance arrangements. See Note 8 of Notes to the Consolidated Financial Statements and "Management—Remuneration" for further details concerning the Retirement Plan.

Patents

The Company owns approximately 1,725 unexpired United States patents, approximately 2,600 foreign patents and numerous trademarks and copyrights, and is licensed under many others, no one of which, nor group of which, is deemed to be significant and material to the conduct of the Company's business as a whole other than the [illegible] by the licenses from [illegible] and Amchem described under "[illegible]—Recent Developments" and "Chemicals—Recent Developments", respectively, and a group of patents relating to photographic products covered by licenses from the dominant company in the photo products field.

New Economic Policy

On August 15, 1971 the President of the United States announced a new economic policy, including a wage-price freeze for 90 days, suspension of the convertibility of the U. S. dollar into gold in connection with international settlements, and a 10% surcharge on most products imported into the United States. As part of such policy, the President also proposed an investment tax credit for plant and equipment placed in use on or after August 15, 1971. On December 10, 1971 the President signed into law a tax bill which, among other things, enacted an investment tax credit.

On November 14, 1971, "Phase II" of the President's new economic policy went into effect. Under "Phase II" the Company has obtained term limit pricing approval from the Price Commission to grant aggregate price increases of 2% of domestic sales which may be applied on a weighted average basis over established base prices of the Company's domestic products. Under the term limit pricing the Company is permitted to increase individual product prices varying amounts without being required to obtain specific Commission approval for each individual price change. The term limit pricing increase of 2% is effective for the period of January 1, 1972 through December 31, 1972. Price increases will not be allowed if any increase would raise the Company's profit margin before taxes and extraordinary items (as a percentage of sales) above the Company's average profit margin for any two of the last three fiscal years ended prior to August 15, 1971. In addition, wage and salary increases for employees are subject to limitations and supervision. Furthermore, a Government Committee on Interest and Dividends established on November 15, 1971 a voluntary guideline that cash dividends paid on common stock in 1972 should not exceed by more than 4% the highest aggregate annual cash payment per share in any of the paying company's fiscal years ending in 1969, 1970 or 1971.

In December 1971 the President signed into law a bill which, among other things, extended until April 30, 1973 the Economic Stabilization Act of 1970 which is the enabling legislation for the new economic policy.

In April 1972 the President signed into law the Par Value Modification Act which authorized and directed a change in the par value of the dollar from $35 to $38 per ounce of gold. Such law was preceded by a revaluation of certain foreign currencies and elimination in December 1971 of the 10% import surcharge.

In view of the many uncertainties with respect to the President's new economic policy, including its duration, the Company cannot predict the overall effect of such policy on its business.

Environmental Control

By reason of the nature of many of the Company's operations, environmental standards promulgated by various regulatory bodies, many of which regulatory bodies have been recently established by state or local laws or regulations, are having or will have a substantial impact upon the Company. In some cases, the Company has obtained variances which are conditioned upon compliance at some future date and in other cases, it is seeking to work out similar arrangements. In addition, Federal statutes dealing with the protection of the environment, including the Federal Refuse Act which regulates discharges into navigable waters, and The National Air Quality Standards Act which regulates air quality and the emission of pollutants, have affected and will increasingly affect the Company. The Company is undertaking additional anti-pollution activities which will undoubtedly be increased in response both to the Company's continuing efforts to deal with environmental problems and to increased Federal, state and local regulation in this area.

While the exact nature of the environmental control problems which the Company will encounter in the future cannot be predicted, substantial additional capital expenditures, the amount of which cannot be estimated at this time, as well as increased operating expenses, will be occasioned by the Company's continuing effort to deal with environmental problems arising from its activities and to comply with the statutes and regulations referred to above. In 1971, pollution control requirements resulted in capital expenditures of approximately $5,000,000.

Facilities

The Company's major plants are as follows:

Chemicals: Shallowford, Tennessee; Calvert City, Kentucky; Linden, New Jersey; Rensselaer, New York; Texas City, Texas; and Glens Falls, New York.

Photographic Products: Binghamton, New York; Philadelphia, Pennsylvania; Los Angeles, California; Sint-Niklaas, Belgium; and Progress, Oregon.

Business Systems: Vestal, New York; Johnson City, New York; London, England; Delft, The Netherlands; Shelby, Ohio; and Sydney, Australia.

Building Products: Mobile, Alabama; Long Beach, California; Denver, Colorado; Tampa, Florida; Savannah, Georgia; Joliet, Illinois; Baltimore, Maryland; Millis, Massachusetts; Minneapolis, Minnesota; Kansas City and St. Louis, Missouri; South Bound Brook, New Jersey; Vails Gate, New York; Erie and Whitehall, Pennsylvania; and Dallas and Houston, Texas.

Industrial Products: Annapolis, Missouri; Glenville, Connecticut; Joliet, Illinois; Franklin, Massachusetts; Warren, Michigan; Bound Brook, New Jersey; Newburgh, New York; Charmain, Pennsylvania; and Westerly, Rhode Island. The Company owns an asbestos mine in Hyde Park, Vermont and rock quarries in Annapolis, Missouri; Kremlin, Wisconsin; and Fairmount, Georgia.

With the exception of the plants located in Warren, Michigan and Annapolis, Missouri (building only), which plants are leased to the Company, the above mentioned properties are owned by the Company in fee. As described in "Description of Business—Chemicals", that portion of the plant (building and equipment only) at Texas City, Texas which produces Amiben has been sold to Amchem.

The Company also owns or leases many other smaller plants, research laboratories and sales and distribution offices in the United States and elsewhere.

The Company believes that in general these plants and facilities, which are of widely varying ages and of different types of construction, have been adequately maintained and are in good condition. Each plant has adequate transportation facilities for both raw materials and finished products.

The executive offices of the Company at 140 West 51st Street, and substantially all of the administrative offices of each division, are housed in approximately 264,000 square feet of leased space at 140 West 51st Street and 1180 Avenue of the Americas, New York City, of which 240,000 square feet is presently used by the Company and 24,000 has been subleased to February 1973.

On August 11, 1969, the Company contracted to purchase, for an amount in excess of $8,000,000, a research laboratory and adjacent acreage in Wayne, New Jersey, where it plans to consolidate a number of its research and development operations in the latter part of 1972.

Capital expenditures for new plant and equipment during 1971 amounted to approximately $29,939,000 as compared with $25,186,000 in 1970.

On November 27, 1970 the Company sold its headquarters building in London, England and the proceeds from such sale have been used to acquire and renovate an existing manufacturing facility in the suburbs of London.

Litigation

On May 27, 1970 Paul Milstein commenced a shareholder's derivative action in the United States District Court for the Southern District of New York against the Company and all but one of its present directors and certain former directors. The present complaint alleges violations of the Federal securities laws relating to the Company's 1969 and 1971 proxy materials, payment of excessive compensation, dissemination of inaccurate financial information, failure to provide adequate reserves for accounts receivable and breaches by the directors of various fiduciary duties, including the failure to remain adequately informed. The complaint makes the following allegations regarding the Stock Purchase Plan: that stockholder approval of the Plan was obtained by means of the 1969 Proxy Statement containing misrepresentations and omissions of material facts knowingly made; that the Plan was invalidly adopted and implemented; that sales of shares were improperly made under the Plan; that stock issued under the Plan is part of excessive compensation paid to officers of the Company; and that improper payment of dividends was made on shares issued under the Plan. It is also claimed that Haskins & Sells, the Company's auditors, improperly certified certain financial statements of the Company. The complaint demands rescission of the Plan and of all issuances of stock thereunder, the return of all dividends paid upon such stock, and an injunction against the further issuance of stock under the Plan. On January 14, 1972 another shareholder, Bessie N. Shapiro, intervened in this action to assert the same claims as those asserted by Paul Milstein.

On June 1, 1970, June 12, 1970, December 10, 1970, September 28, 1970 and May 20, 1971 shareholders' derivative actions were commenced by Paul Milstein, Elaine Mendelson (two actions), Deborah Glickman and Bessie N. Shapiro, respectively, in the Supreme Court of the State of New York, County of New York in the case of the first two actions, and in the United States District Court for the Southern District of New York, the Court of Chancery for the State of Delaware in and for New Castle County, and the Supreme Court of the State of New York, County of Kings, respectively, against the Company and all but three of its present directors and variously against some of its former directors and a vice president of the Company. The complaints make essentially the same allegations as to the payment of excessive compensation in the form of sales of stock under the Stock Purchase Plan as are alleged in the aforementioned Milstein Federal action. The Milstein state action, in addition, alleges other violations such as the failure to provide adequate reserves for accounts receivable. The Mendelson Federal action also alleges violations of the Federal securities laws relating to the Company's 1969 proxy statement. On January 14, 1972 this action was consolidated with the Milstein Federal action. On February 1, 1972 the claims alleging excessive compensation were discontinued in the Shapiro state action.

On December 16, 1970 the Company commenced an action in the United States District Court for the Southern District of New York against Paul Milstein, Seymour Milstein, Morris Milstein and Gloria Milstein Flanzer charging untimely, false and misleading filings in violation of Sections 10(b) and 13(d) of the Securities Exchange Act of 1934, as amended. On March 22, 1971 the District Court dismissed the action and the Company appealed. On December 13, 1971 the United States Court of Appeals for the Second Circuit reversed the District Court's dismissal and reinstated the Company's complaint with respect to its Section 13(d) claim and affirmed the District Court's dismissal of the Section 10(b) claim. On April 24, 1972 the United States Supreme Court denied the Milsteins' petition for a writ of certiorari to review the judgment of the Court of Appeals with respect to the Section 13(d) claim and denied the Company's conditional cross-petition for certiorari. That cross-petition requested the Supreme Court to review the judgment of the Court of Appeals with respect to the Section 10(b) claim only if the Supreme Court granted the Milsteins' petition for certiorari.

On February 24, 1971 the Company commenced an antitrust action in the United States District Court for the Southern District of New York against Circle Floor Co., Inc., Paul Milstein, Seymour Milstein, Morris Milstein and Gloria Milstein Flanzer. The complaint alleges violations of Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act. Treble damages and injunctive relief are sought. The complaint was dismissed, the Company has appealed and the appeal is under advisement by the United States Court of Appeals for the Second Circuit.

On March 15, 1971 and April 14, 1971 Paul Milstein commenced an action and Richard A. Ash commenced a shareholder's derivative action in the United States District Court for the Southern District of New York and the United States District Court for the Eastern District of Pennsylvania, respectively, against the Company and variously against directors and a vice president of the Company. The Milstein action was amended to be brought on behalf of Paul Milstein, Seymour Milstein and the so called GAF Stockholders Protective Committee. The complaints allege violations of the Federal securities laws relating to the management's solicitation of proxies during the proxy contest held in connection with the Company's 1971 Annual Meeting. The Milstein action also alleges fraud in connection with that solicitation. Injunctive relief and damages are sought.

On April 21, 1971 Nina Altman commenced a shareholder's derivative action in the Supreme Court of the State of New York, County of New York. The defendants are the Company, all but three of its present directors, three former directors, and the individuals comprising the slate of directors proposed by the insurgents in the aforementioned proxy contest. The complaint seeks recoupment from the Company's directors of all proxy expenses charged to or incurred by the Company. A companion Altman action involving the same facts, seeking the same relief, and against the Company and the same directors of the Company was commenced in the Delaware Chancery Court in and for New Castle County on or about September 30, 1971. The aforementioned Shapiro state action makes similar charges and seeks similar relief.

On May 10, 1971 results of the proxy contest held in connection with the Company's 1971 Annual Meeting for control of the Company were announced and the Company's existing Board of Directors defeated the dissident shareholders' proposed Board of Directors by a vote of more than 2 to 1. In addition, the so called GAF Stockholders Protective Committee submitted a proposal pursuant to which the stockholders of the Company would recommend to the Board of Directors that it adopt certain restrictions on sales of Common Stock under the Stock Purchase Plan, based upon the Company's operating income, the market price of the Common Stock and the salary level of the purchaser. 4,724,873 shares of stock (being less than the majority of the stock entitled to vote at the meeting required for passage of a proposal by the Company's By-Laws) voted for the proposal and 144,243 shares of stock voted against the proposal. The Proxy Committee representing Management, which held proxies representing in excess of eight million shares, refrained from voting on the proposal. Accordingly, the shareholder proposal was defeated.

There are certain other lawsuits and claims pending against the Company.

The Company believes that the ultimate disposition of the above lawsuits will not materially affect its consolidated financial position or its operations.

MANAGEMENT

The directors and executive officers of the Company are as follows:

Name	Position
Jesse Werner(1)	Director; Chairman of the Board and President
Philip B. Dalton	Director; Executive Vice President
T. Roland Berner(1)	Director; Chairman of the Board and President, Curtiss-Wright Corporation
Rainer E. Gut(1)	Director; Chairman and Chief Executive Officer, Swiss American Corporation
Bailey K. Howard(1)	Director; Chairman of the Executive Committee, Field Enterprises, Inc.
Wm. Peyton Marin(1)	Director; Attorney
James J. O'Leary	Director; Vice Chairman of the Board, United States Trust Company of New York
Victor E. Rockhill	Director; Executive Vice President, The Chase Manhattan Bank, N.A.
Donald L. Sanders	Director; Consultant to the Company
Howard S. Turner	Director; Chairman and Chief Executive Officer, Turner Construction Company
Edward J. Williams	Director; President and Chief Operating Officer of McGraw-Edison Company
Juliette M. Moran	Senior Vice President
James M. Cloney	Group Vice President (Business Systems Group)
Joseph G. Hall	Group Vice President (Building and Industrial Products Group)
Howard L. Minckler	Group Vice President (Chemical Products Group)
James T. Sherwin	Group Vice President (Photo Products Group)
Raymond Addeo	Vice President (Consumer Photo)
J. Stokes Clement	Vice President (Floor Products Division)
Thomas A. Dent	Vice President (Technical Services)
Stanley B. Feuer	Vice President, General Counsel and Secretary
R. Power Fraser	Vice President (Industrial Products Division)
A. Robert Garofalo	Vice President (Public Relations)
Robert S. Goldfield	Vice President (Photo Service Division)
Jack F. Gow	Vice President (Personnel Relations)
Kenneth H. Houtz	Vice President (Industrial Photo)
N. Paul Klaas	Vice President (Commercial Development)
W. Richard Margerm	Vice President and Controller
James C. Murphy	Vice President (Distribution)
Robert L. Myers	Vice President (Research and Development)
Jay R. Olson	Vice President and Treasurer
Alfred P. Rimlinger	Vice President (International Services)
Jack Scheckowitz	Vice President (Advertising and Promotion)
Raymond J. Wilcox	Vice President (Building Products)

(1) Member of the Executive Committee of the Board of Directors.

Jesse Werner, Philip B. Dalton, James M. Cloney, Juliette M. Moran, James T. Sherwin, Jack F. Gow, Raymond Addeo and Alfred P. Rimlinger have been employed by the Company for at least five years.

J. Stokes Clement, Thomas A. Dent, Joseph G. Hall, James C. Murphy and Raymond J. Wilcox joined the Company in 1967 when The Ruberoid Co. was merged into the Company. R. Power Fraser, who also joined the Company at the time of this merger, was Vice President of American Felt Company, a subsidiary of The Ruberoid Co. Prior to such merger, they were employed by The Ruberoid Co. (and in the case of Mr. Fraser, American Felt Company).

Prior to joining the Company in 1969, Robert L. Myers was employed in various managerial capacities by American Cyanamid Company. W. Richard Margerm joined the Company in 1970, prior to which he was Senior Manager of the New York Management Services Group of Price Waterhouse & Co. From 1969 to 1970, when he joined the Company, Jay R. Olson was Vice President and Treasurer of Diversa-Graphics, Inc. and from 1963 to 1969 he was Assistant Treasurer of Continental Can Company. From 1967 until he joined the Company in 1971 Stanley B. Feuer was Vice President and General Counsel of Studebaker-Worthington, Inc., and prior thereto he was Secretary and Corporate Counsel of Studebaker Corporation. From 1968 to 1969 when he joined the Company, A. Robert Garofalo was employed by Heublein, Inc. as Manager of Corporate Communications and prior thereto he was employed by Lederle Laboratories, a division of American Cyanamid Company as Assistant Manager—Public Relations. Robert S. Goldfield was President of Perfect Photo, Inc. for more than five years prior to its acquisition by the Company in 1971. Kenneth H. Houtz was Vice President of American Hoechst Corp. from 1967 until 1971 when he joined the Company prior to which he was employed as a technical sales representative by E. I. DuPont de Nemours & Co. N. Paul Klaas was Executive Vice President of Wyomissing Corp. for more than five years prior to 1971 when he joined the Company. Howard L. Minckler was employed by Monsanto Company in various managerial capacities for more than five years prior to 1972, when he joined the Company. Jack Scheckowitz has been employed by the Company since 1967 prior to which he was Vice President of David Singer Associates.

As of April 24, 1972, all officers and directors of the Company, as a group, owned 264,429 shares of Common Stock representing 1.93% of such shares then outstanding and 9,170 shares of the $1.20 Convertible Preferred Stock, representing 0.29% of such shares then outstanding.

Remuneration

The following table sets forth the total direct remuneration earned during the year 1971 by each director, and each of the four highest paid officers, whose total direct remuneration exceeded $30,000, and by all directors and officers as a group.

Name	Capacities in Which Remuneration Was Received	Remuneration Exclusive of Incentive Compensation
Jesse Werner	Chairman of the Board and President	$195,000(a)
Philip B. Dalton	Executive Vice President	93,750
Edward J. Williams(d)	Executive Vice President	93,750
E. J. O'Leary	Senior Vice President	45,833(b)
All Officers and Directors as a group (39 persons including the above)		1,282,483(c)

(a) Dr. Werner has an employment contract which provides for compensation of $190,000 for the year ended June 30, 1971 and $200,000 for the year ending June 30, 1972. This contract, made in 1965, provided for current compensation of $75,000 and for deferred compensation of $65,000 for the

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year ended June 30, 1966, and current compensation of $80,000 and deferred compensation of $70,000 for the following year. A prior contract with Dr. Werner, made in 1962, provided for current compensation of $75,000 per annum and for deferred compensation of $35,000 for the year ended June 30, 1963, $45,000 for the following year, and $55,000 for the year ended June 30, 1965. All deferred compensation owing to Dr. Werner becomes payable at the annual rate of $30,000 commencing January 2, 1973.

(b) Mr. O'Leary retired June 1, 1971 and became a consultant to the Company under a contract which provides for compensation at the rate of $75,000 per year from June 1, 1971 to November 30, 1972, and $17,500 per year from December 1, 1972 to November 30, 1975. Under such contract the Company paid Mr. O'Leary $43,750 during 1971 in addition to the amount set forth above.

(c) In addition to the amount stated: Sumner H. Williams, who retired as a director of the Company on April 25, 1972, received $16,537 in 1971 pursuant to a consulting agreement which provides for payment at the rate of $15,000 per year to December 31, 1972, and also pursuant to other arrangements relating to patents; Donald L. Sanders, a director, received $12,500 pursuant to a consulting agreement which provides for payment at the rate of $15,000 per year to October 31, 1972.

Victor E. Rockhill became a director of the Company on April 25, 1972. The Chase Manhattan Bank, N.A., of which Mr. Rockhill is Executive Vice President, is Trustee or Agent for Various Accounts (as defined therein) under Loan Agreement dated as of June 1, 1969 pursuant to which $50,000,000 of 5% Convertible Subordinated Notes, due April 1, 1994 were issued by the Company. Such Bank is, in addition, (i) one of nine banks which are lenders to the Company under Credit Agreement dated October 9, 1967 and (ii) one of three banks which are lenders to the Company pursuant to Loan Agreement dated May 5, 1965 with The Ruberoid Co., assumed by the Company by letter dated May 5, 1967. The largest aggregate indebtedness owing to such Bank at any one time during the fiscal year 1971 pursuant to the above agreements and certain short-term borrowings was $14,100,000 and the total amount of interest paid to such Bank during such year was $648,986.27.

(d) Edward J. Williams resigned as Executive Vice President of the Company on April 25, 1972.

Executive Incentive Compensation. The Company has an Executive Incentive Compensation Plan which was last approved by the stockholders in May 1967. The Plan provides that, in its discretion, the Board of Directors may credit to an incentive compensation fund an amount up to six percent of the excess of the Company's adjusted income over six percent of an amount equal to the value of shareholders' equity at the beginning of the year for which the computation is made. Adjusted income is defined as income before extraordinary items plus foreign, federal, state and municipal income taxes and charge equivalent to investment tax credit plus the amount of executive incentive compensation charged to cost and expenses during the calendar year. An award under the Plan may be payable in cash or the Company's Common Stock or both, either promptly after it is made or over any period of time, all as determined by a committee of the Board. Common Stock awarded may be subject to restrictions as to disposition. To the extent an award shall not have been actually paid, it may be forfeited if the employee's service with the Company terminates for a reason other than death, disability or retirement. During the year 1971 the following amounts were paid on account of awards made under the Plan in 1970 and prior years: to Dr. Werner, $10,026; to Mr. Dalton, $2,837; to all directors and officers as a group, $69,736. No awards were made in 1971 for the year ended December 31, 1970, as no amount was credited to the incentive compensation fund for that year pursuant to the provisions of the Plan. As of December 31, 1971, $21,198 remained contingently payable in 1972 to all directors and officers as a group on account of awards made under the Plan in 1970. For the year ended December 31, 1971, $1,264,998 was charged to income for awards to be made in 1972. On March 1, 1972 awards were made for the year 1971 as follows: Dr. Werner, $115,000; Mr. Dalton, $42,500; Mr. Williams, $42,500; all directors and officers as a group, $456,848.

Retirement Income. The Company's Salaried Employees Retirement Plan provides retirement income for salaried employees based upon compensation and credited service as defined in the Plan.

Annual retirement income commencing at age 65 to which a participant in the Plan is entitled amounts to the sum of the following (a) ¾ of 1% of the first $4,200 of the annual rate of the participant's compensation in effect December 31, 1956, plus 1½% of the excess of such compensation over $4,200 multiplied by the number of years of past service as defined in the Plan; (b) for service between August 1, 1957 and December 31, 1967, 1% of the first $4,200 of each year's compensation plus 2% of the excess of such compensation over $4,200; (c) for service after January 1, 1968, 1.4% of the first $6,600 of each year's compensation plus 2% of the excess of such compensation over $6,600. Annual amounts of retirement income commencing at age sixty-five, based upon average annual compensation during the entire period of service and assuming such service commences after January 1, 1968, are illustrated in the following table:

Average Annual Compensation*	Estimated Annual Retirement Income Based Upon Years of Service		
	10 Years	20 Years	30 Years
$ 10,000	$ 1,604	$ 3,208	$ 4,812
20,000	3,604	7,208	10,812
30,000	5,604	11,208	16,812
50,000	9,604	19,208	28,812
100,000	19,604	39,208	58,812

* No officer of the Company has had such average annual compensation equal to or in excess of $100,000.

Stock Options. In June 1965 the stockholders approved a Stock Option Plan which authorized the granting of options to purchase a maximum of 580,000 shares of the Company's Common Stock to key employees of the Company. The option price at which shares may be purchased may not be less than the fair market value of the shares on the date the option is granted and must be paid in full at the time of exercise of the option. Options granted under the Plan must expire no later than five years from the date of grant and are intended to be "qualified stock options" under Section 422 of the Internal Revenue Code as amended. Under the terms of the merger of The Ruberoid Co. into the Company in May 1967, each outstanding option to purchase shares of capital stock of Ruberoid granted under Ruberoid's Incentive Stock Option Plan was converted into an option to purchase the same number of shares of the Company's $1.20 Convertible Preferred Stock.

The following table sets forth information as of April 24, 1972 with respect to options which have been granted by the Company under the Stock Option Plan:

No. of Shares Under Option	Number of Optionees	Expiration Date of Options	Exercise Price Per Share
2,000	2	Jan. 10, 1973	$22.81
52,750	36	Jan. 25, 1973	22.19
38,250	54	Sept. 3, 1973	25.375
27,350	42	Nov. 4, 1974	17.313
14,100	26	Sept. 1, 1975	10.1875
2,000	1	Sept. 14, 1975	11.00

The options outstanding as of April 24, 1972 under the Stock Option Plan, and assumed options, with respect to each director, and each of the three highest paid officers as of such date whose aggregate director remuneration in 1971 was over $30,000 (two of whom had no options outstanding as of such date), and all directors and officers of the Company as a group, are as follows:

Name of Individual or Identity of Group	Number of Shares Under Option	Exercise Price Per Share	Expiration Date of Options
Jesse Werner	25,000	$22.19	January 25, 1973
All officers and directors as a group	36,500	22.19	January 25, 1973
	5,000	25.375	September 3, 1973
	9,500	17.313	November 4, 1974
	2,500	10.1875	September 1, 1975
	2,000	11.00	September 14, 1975
	600*	13.50	May 21, 1973

* Convertible Preferred.

The closing sale price of the Common Stock and the $1.20 Convertible Preferred Stock on the New York Stock Exchange on April 24, 1972 was $24½ per share and $31 per share, respectively.

Stock Purchase Plan

See "Description of Stock Purchase Plan".

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 25,000,000 shares of Common Stock, par value $1.00 per share, and 6,000,000 shares of Convertible Preferred Stock, par value $1.00 per share. On April 24, 1972, 13,701,435.5 shares of the Company's Common Stock were issued (including 26,209 shares held in treasury) and 3,143,353 shares of the Company's Convertible Preferred Stock, designated as its $1.20 Convertible Preferred Stock (the "Convertible Preferred") were outstanding.

Common Stock

All outstanding shares of Common Stock rank equally as to voting rights, dividends and upon liquidation and are fully paid and nonassessable. The Common Stock is not entitled to any preemptive rights and is not subject to redemption. Except as set forth under "Convertible Preferred—Voting Rights", Common and Convertible Preferred vote together as one class.

Based upon the Company's stock records and upon information furnished to the Company, no person owns of record, or is known by the Company to own beneficially, more than 10% of the Company's Common Stock.

The payment by the Company of dividends, other than dividends payable in the Company's capital stock, is subject to restrictions imposed by certain instruments relating to the Company's long-term debt. Under the most restrictive of these provisions approximately $206,000,000 of the Company's consolidated retained earnings at December 31, 1971 was not available for dividends. The payment of dividends by the Company on its Common Stock will also be subject to prior payment of cumulative dividends of $1.20 per share per annum on the Convertible Preferred. Otherwise the Company may pay dividends on its Common Stock out of funds legally available. See "Description of Business—New Economic Policy" for information as to dividend restraints in connection with the Government's economic stabilization program.

$1.20 Convertible Preferred Stock

Dividend and Liquidation Rights

The holders of the Convertible Preferred are entitled to receive, prior to the payment of dividends on Common Stock, cumulative cash dividends at the rate of $1.20 per share per annum. Upon any voluntary or involuntary liquidation, dissolution or winding up, before any distribution may be made to the Common stockholders, the holders of the Convertible Preferred shall be entitled to receive $27.50 per share plus an amount equal to all accrued and unpaid dividends.

Voting Rights

Each holder of the Convertible Preferred is entitled to one vote for each share held. Except as set forth below, the Convertible Preferred and Common Stock vote together as one class.

If dividends are in arrears on the Convertible Preferred in an aggregate amount at least equal to six quarterly dividends, the holders of the Convertible Preferred voting as a class will be entitled to elect two directors until all arrears in dividends have been paid and dividends for the current quarterly period have been declared or paid.

The consent of the holders of at least two-thirds of the Convertible Preferred is necessary to authorize, or increase the authorized amount of, any class of stock of the Company ranking prior to the Convertible Preferred as to dividends or assets or to change any of the provisions of the Company's Certificate of Incorporation so as to affect materially any of the powers, preferences and rights of the Convertible Preferred. The consent of the holders of at least the majority of the Convertible Preferred is necessary to increase the authorized number of shares of Preferred Stock or authorize, or increase the authorized number of, shares of stock of equal rank as to dividends or upon liquidation rights.

Redemption Provisions

The Convertible Preferred is callable for redemption on and after June 1, 1972, in whole or in part, at the option of the Company on 30 days' notice, at $30.00 per share through May 31, 1973, $29.50 per share thereafter through May 31, 1974, $29.00 per share thereafter through May 31, 1975, $28.50 per share thereafter through May 31, 1976, $28.00 per share thereafter through May 31, 1977 and $27.50 per share thereafter, plus, in each case, an amount equal to accrued and unpaid dividends to the redemption date.

Conversion Rights

Each share of Convertible Preferred is convertible into the Company's Common Stock at the rate of 1.25 shares of Common Stock for each share of Convertible Preferred. The conversion rate is subject to adjustment from time to time upon the occurrence of specified events in order to prevent dilution of the appropriate number of Common shares to be received upon conversion. No fractional shares will be issued upon conversion, but any fractions will be adjusted in cash on the basis of market value. No adjustments will be made upon conversion in respect of any accrued but unpaid dividends.

General

The Convertible Preferred is not liable for further calls or subject to assessment. It has nc pre-emptive or other subscription rights.

Redeemed or converted shares of Convertible Preferred will have the status of authorized and unissued shares of Preferred Stock.

DESCRIPTION OF STOCK PURCHASE PLAN

In April 1969 the stockholders of the Company approved the Stock Purchase Plan, under which an aggregate of 650,000 shares of the Company's Common Stock was reserved for sale to designated employees under sixty years of age. The Stock Purchase Plan authorizes the sale of shares subject to prescribed restrictions as to disposition ("Restricted Shares") and without such restrictions ("Unrestricted Shares"). Restricted Shares may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, except as provided in the Stock Purchase Plan, for a period of five years from the date of purchase or such further period or periods as may be provided by the Committee of the Board which administers the Plan. If an employee's employment terminates for any reason, other than retirement subsequent to the fifth anniversary of the date of purchase or death subsequent to the completion of five years of continuous employment, the Company, or the subsidiary from which the employee purchased Restricted Shares, has the right to repurchase such shares at the price which the employee paid for them. Any shares so repurchased may be resold by the Company. The price of Unrestricted Shares must be at least eighty percent, and the price of Restricted Shares must be at least twenty percent, of the closing price of the Company's Common Stock on the New York Stock Exchange on the last trading date on which such stock was traded preceding the date on which an employee is designated as one to whom shares may be offered for sale. The purchase of shares under the Stock Purchase Plan obligates an employee to remain in the employ of the Company or its subsidiaries for not less than two years in the case of employees who purchase Unrestricted Shares and for not less than three years in the case of employees who purchase Restricted Shares.

Pursuant to the Plan, since 1969 the Company has sold Restricted Shares to a number of employees, including Messrs. Werner (62,000 shares), Dalton (25,000 shares) and Williams (10,000 shares) and all officers and directors as a group (159,000 shares). As a result of Mr. Williams' resignation, in accordance with the terms of the Plan, the Company is repurchasing 10,000 shares issued to him. Of the shares presently outstanding, the Company received, at the time of purchase, a minimum of twenty-five per cent of the purchase price in cash and the balance in six-year promissory notes bearing interest at the rate of six per cent per annum, certain of which require partial prepayments of principal. The promissory notes are secured by pledges of all of the shares purchased. The purchase price for all such stock was $5⅛, which was at least 20% of the closing price of the Company's Common Stock on the New York Stock Exchange on the last trading date on which such stock was traded preceding the date on which such employee was designated as one to whom such shares would be offered for sale. Except for the notes of Messrs. Werner, Dalton and Williams and Miss Moran, which were prepaid in full in May and June of 1971 and the note of a deceased former employee which has been paid in full, the notes referred to herein are outstanding except with respect to the required prepayments made thereon.

As of April 24, 1972, 38 employees, including officers and directors, held an aggregate of 200,000 restricted shares of Common Stock (and as to 2,000 additional shares of stock held by a deceased former employee, the restrictions have been removed), for which they had paid to such date, an aggregate of $723,133.30 in cash ($280,288.00 at the time of purchase) and have given the Company promissory notes, the unpaid balance of which aggregated as of such date $362,616.70 ($805,462.00 at the time of purchase). Shares so sold (which shares are included in this Prospectus) were not registered under the Securities Act of 1933, as amended, at the time of issuance since their sale did not involve a public offering, as such term is used in Section 4(2) of such Act.

As of April 24, 1972, there were available for sale 448,000 additional shares.

For information with respect to litigation relating to the Stock Purchase Plan, awards made thereunder and dividends paid on shares issued pursuant thereto, see "Description of Business—Litigation."

FINANCIAL STATEMENTS—EXPERTS

The financial statements of the Company included in this Prospectus have been examined by Haskins & Sells, independent certified public accountants, as stated in their opinion appearing herein and have been so included in reliance upon such opinion given upon their authority as experts in accounting and auditing.

LEGAL OPINION

The legality of the shares of Common Stock to which this Prospectus relates has been passed upon on behalf of the Company by Messrs. Winthrop, Stimson, Putnam & Roberts, 30 Rockefeller Plaza, New York, New York 10020.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

GAF CORPORATION:

We have examined the consolidated balance sheet of GAF Corporation and its consolidated subsidiaries as of December 31, 1971, the related statement of consolidated income for the five years then ended, and the statements of shareholders' equity and changes in consolidated financial position for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the companies at December 31, 1971 and the results of their operations and the changes in their financial position for the stated periods then ended, in conformity with generally accepted accounting principles applied (except for the 1971 changes in methods of accounting for an investment in a 49% owned company and the investment tax credit, which we approve, as explained in Notes 1 and 5 to the consolidated financial statements) on a consistent basis.

HASKINS & SELLS

New York, New York
February 11, 1972

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GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET—December 31, 1971
(In Thousands of Dollars)

ASSETS

Current Assets:		
Cash		$ 17,012
Marketable securities, at cost which approximates quoted market value		116
Accounts receivable:		
Trade	$126,945	
Other	5,459	
	132,404	
Less allowance for doubtful accounts	2,135	130,269
Anticipated proceeds upon sale of plant facilities (Note 2)		5,500
Inventories, at the lower of cost (principally average) or market (Note 3)		156,404
Prepaid expenses		4,298
Future Federal income tax benefits		5,401
Total current assets		319,000
Other Investments and Advances (Note 1)		2,848
Property, Plant, and Equipment, at cost (Note 4):		
Land, land improvements, and mineral properties	15,973	
Buildings and building equipment	110,905	
Machinery and equipment	289,540	
Construction in progress	11,710	
Total	428,128	
Less accumulated depreciation, amortization, and depletion	205,488	222,640
Goodwill, Patents, Trademarks, etc. (Note 1)		43,853
Total		$588,341

GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET—December 31, 1971
(In Thousands of Dollars)

LIABILITIES

Current Liabilities:		
Notes payable to banks		$ 21,023
Current portion of long-term debt		17,957
Accounts payable:		
Trade	29,498	
Taxes withheld at source	1,948	
Other	2,392	33,838
Accrued liabilities:		
Federal and foreign income taxes (Note 5)	14,246	
Payroll	3,053	
Retirement plan	5,337	
Other taxes	2,563	
Interest	1,460	
Other	14,289	40,948
Total current liabilities		113,766
Long-term Debt Less Current Portion Above (Note 6)		133,926
Obligation Under Long-term Lease (Note 9)		3,455
Deferred Income Taxes (Note 5)		27,402
Other Liabilities		1,901
Deferred Investment Tax Credit (Note 5)		6,089
Commitments and Contingent Liabilities (Note 9)		

SHAREHOLDERS' EQUITY

Preferred Stock, $1 par value, authorized 6,000,000 shares; $1.20 convertible series; issued, 3,170,104 shares; at assigned value of $1.25 per share (liquidation value, $87,178,000) (Note 7)	3,962	
Common Stock, $1 par value, authorized 25,000,000 shares; issued, 13,617,839.5 shares (Note 7)	13,618	
Paid-in surplus	50,550	
Retained earnings (Note 6)	233,672	301,802
Total		$588,341

See Notes to Consolidated Financial Statements

GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES
STATEMENT OF SHAREHOLDERS' EQUITY
For the Three Years Ended December 31, 1971
(In Thousands of Dollars)

	Preferred Stock	Common Stock	Paid-in Surplus	Retained Earnings
Balance, January 1, 1969 (shares of stock: 3,155,882 preferred and 13,360,933.5 common)	$3,945	$13,361	$48,048	$221,095
Net income				11,068
Cash dividends:				
Preferred stock—$1.20 per share				(3,793)
Common stock—$.40 per share				(5,395)
Issuance of 6,372 shares of preferred stock and 2,800 shares of common stock upon exercise of stock options	8	3	169	
Issuance of 17 shares of preferred stock and 13,200 shares of common stock under incentive compensation plan		13	352	
Issuance of 209,000 restricted shares of common stock under stock purchase plan (Note 7)		209	914	
Conversion of 557 shares of preferred stock into 694 shares of common stock	(1)	1		
Amortization of excess of quoted market value over aggregate sales price for shares of restricted common stock sold to key employees (Note 7)			157	
Balance, December 31, 1969 (shares of stock: 3,161,714 preferred and 13,586,627.5 common) ..	3,952	13,587	49,640	222,975
Net income				14,693
Cash dividends:				
Preferred stock—$1.20 per share				(3,795)
Common stock—$.40 per share				(5,433)
Issuance of 1,150 shares of preferred stock upon exercise of stock options	1		20	
Issuance of 207 shares of preferred stock and 12,200 shares of common stock under incentive compensation plan	1	12	161	

(Statement of Shareholders' Equity continued on following page)

GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES
STATEMENT OF SHAREHOLDERS' EQUITY—(Continued)
For the Three Years Ended December 31, 1971
(In Thousands of Dollars)

	Preferred Stock	Common Stock	Paid-in Surplus	Retained Earnings
Amortization of excess of quoted market value over aggregate sales price for shares of restricted common stock sold to key employees (Note 7)			237	
Balance, December 31, 1970, as originally reported	3,954	13,599	50,058	228,440
Adjustment to change to equity method of accounting for investment in a 49% owned company (Note 1)				1,004
Balance, December 31, 1970, as restated (shares of stock: 3,163,071 preferred and 13,598,827.5 common)	3,954	13,599	50,058	229,444
Net income (Note 5)				13,474
Cash dividends:				
Preferred stock—$1.20 per share				(3,802)
Common stock—$.40 per share				(5,444)
Issuance of 7,840 shares of preferred stock and 3,700 shares of common stock upon exercise of stock options	9	4	172	
Issuance of 243 shares of preferred stock under incentive compensation plan			5	
Issuance of 14,000 restricted shares of common stock under stock purchase plan (Note 7)		14	61	
Conversion of 1,050 shares of preferred stock into 1,312 shares of common stock	(1)	1		
Amortization of excess of quoted market value over aggregate sales price for shares of restricted common stock sold to key employees (Note 7)			254	
Balance, December 31, 1971 (shares of stock: 3,170,104 preferred and 13,617,839.5 common) (Note 6)	$3,962	$13,618	$50,550	$233,672

See Notes to Consolidated Financial Statements.

GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES
STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION
(In Thousands of Dollars)

	Year Ended December 31, 1971	1970 (Note A)	1969 (Note A)
Source of Funds:			
From operations:			
Income before extraordinary items	$ 21,907	$ 8,393	$ 15,242
Add (deduct) expenses (income) not requiring (providing) working capital:			
Depreciation, amortization, and depletion	23,393	20,9[illegible]	19,973
Deferred income taxes (non-current portion)	2,462	3,982	4,468
Deferred investment tax credit	(689)	(567)	2,147
Amortization of deferred charges	1,205	1,144	776
Amortization of intangible assets	192	—	—
Other	1,487	1,517	924
Working capital provided from operations, exclusive of extraordinary items	49,957	35,392	43,530
Extraordinary (charges) credits	(8,433)	6,300	(4,174)
Add (deduct) items not requiring (providing) working capital:			
Net book value of facilities sold or being disposed of	23,301	9,192	3,820
Deferred income taxes (non-current portion)	(3,313)	(796)	(323)
Unamortized deferred investment tax credit	(804)	(66)	—
Working capital provided from extraordinary items	10,751	14,630	(677)
Working capital provided from operations	60,708	50,022	42,853
Long-term borrowing	15,000	1,750	50,000
Proceeds from exercise of stock options and sale of restricted stock to key employees	641	21	478
Total	76,349	51,793	93,331
Disposition of Funds:			
Expenditures for property, plant, and equipment	29,939	25,186	22,090
Net assets, excluding working capital, of businesses purchased:			
Property, plant, and equipment	9,262	1,340	783
Intangible assets, etc.	6,467	1,362	7,035
Non-current liabilities	(502)	(1,075)	—
Equity of minority shareholders	1,286	(1,005)	—
Acquisition cost carried as an investment at December 31, 1969	—	(1,845)	1,845
Reduction of long-term debt	17,881	9,639	9,139
Payment of dividends	9,246	9,228	9,188
Other	2,851	1,599	1,556
Total	76,430	44,429	51,636
Increase (Decrease) in Working Capital (including $545,000 in 1971, $1,395,000 in 1970 and $1,196,000 in 1969 arising from purchases of businesses)	(81)	7,364	41,695
Working Capital, Beginning of Year	205,314	197,950	156,255
Working Capital, End of Year	$205,233	$205,314	$197,950
Summary of Increase (Decrease) in Working Capital:			
Increase (decrease) in current assets:			
Cash and marketable securities	$ 3,131	$ (5,687)	$ (1,493)
Inventories	9,498	(5,321)	15,294
Accounts receivable	14,559	4,337	14,015
Other	2,028	(1,311)	2,797
Total	29,216	(7,982)	30,613
Decrease (increase) in current liabilities:			
Notes payable and current portion of long-term debt	(11,895)	11,984	7,204
Accounts payable	(2,195)	4,330	(4,001)
Federal and foreign income taxes	(7,466)	(4,474)	13,032
Other accrued liabilities	(7,741)	3,506	(5,153)
Total	(29,297)	15,346	11,082
Increase (Decrease) in Working Capital	$ (81)	$ 7,364	$ 41,695

NOTE A—Amounts for 1970 and 1969 have been reclassified to conform with 1971 classifications.

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—Principles of Consolidation, Acquisitions, Etc.

In the accompanying financial statements the accounts of all significant subsidiaries have been consolidated.

The Consolidated Balance Sheet at December 31, 1971 includes the following amounts with respect to foreign subsidiaries:

Current assets	$38,986,000
Other assets	5,576,000
Total assets	44,562,000
Current liabilities	13,195,000
Other liabilities	2,159,000
Total liabilities	15,354,000
Company's equity in net assets of foreign subsidiaries	$29,208,000

The Statement of Consolidated Income includes the following amounts with respect to foreign subsidiaries:

	Year Ended December 31				
	1971	1970	1969	1968	1967
	(In Thousands of Dollars)				
Revenues	$65,040	$61,491	$43,149	$35,405	$31,300
Income before extraordinary items	3,126	2,051	1,224	1,296	1,007
Extraordinary items	1,153	3,923	—	—	—
Company's equity in net income of foreign subsidiaries	4,279	5,974	1,224	1,296	1,007

Current assets and liabilities of foreign subsidiaries have been translated into U.S. dollars at year end exchange rates, other assets and liabilities at historical exchange rates, and operating accounts generally at average exchange rates for each year. The translation of foreign currencies resulted in a net gain of $992,000 for 1971. The net gain for 1971 is attributable principally to the weakening in the exchange rate of the U.S. dollar which occurred in that year and has been treated as an extraordinary credit.

In March 1971, the Company acquired certain photo finishing plants and the business and assets relating thereto for a net cash purchase price of approximately $15,188,000. The plants, business, and assets were held and operated by a wholly owned subsidiary of the Company, Perfect Photo, Inc., until December 31, 1971, at which date this subsidiary was merged into the Company. Also in July 1971, the Company acquired for a cash purchase price of approximately $100,000 the assets and business of Helioprint Hellas S.A., a manufacturer of sensitized papers and a distributor of reprographic papers and machines in Greece. The results of operations of the acquired businesses, which did not significantly affect consolidated revenues or net income for 1971, have been included in the consolidated financial statements from the dates of acquisition.

The Company's ownership of an Australian subsidiary, Consolidated Reprographics, Ltd., was increased from 60% at January 1, 1970 to 100% (effectively) at December 31, 1971 through cash purchases of this subsidiary's shares of capital stock from minority shareholders amounting to approximately $1,480,000 and $182,000 in the years 1971 and 1970, respectively, and provision of $279,000 for the cost of shares of capital stock being acquired in 1972.

Subject to adjustment upon completion of appraisals of certain of the assets included in 1971 acquisitions, the cost of goodwill and other intangible assets acquired have been tentatively determined to be approximately $2,980,000 and $3,134,000, respectively, and is being amortized, by charges to income, over periods of 40 years for goodwill and 20 years for other intangible assets.

The Company's equity in the net assets of subsidiaries at December 31, 1971 was $6,106,000 in excess of the cost of investments in and advances to such subsidiaries. In consolidation this net amount was included in accounts as follows:

Goodwill, Patents, Trademarks, etc.	$10,421,000
Retained Earnings (undistributed net income since acquisition)	16,527,000

All material intercompany transactions have been eliminated from the accompanying financial statements.

The Company has a 49% interest in Chemical Developments of Canada, Limited (CDCL) which was acquired when that company was formed in 1949. Prior to 1971 this investment was included in Other Investments and Advances at a nominal value, and dividends paid by CDCL were included in Other Income as received. During 1971 the Company adopted the equity method of accounting for the investment in CDCL. The resulting adjustment, consisting of $466,000 representing the excess of cost over carrying value of the investment and $538,000 representing the Company's equity in undistributed earnings for the period from 1949 to December 31, 1970, is included in Other Investments and Advances with an offsetting credit to Retained Earnings as of December 31, 1970. The statement of consolidated income for years prior to 1971 was not restated to include therein the portion of the adjustment applicable to those years since the amount thereof is not material. The Company's equity in the earnings of CDCL for the eleven months ended November 30, 1971, $146,000, is included in Other Income, and 1971 dividends received from CDCL, $49,000, were applied to reduce the investment account. The investment on the restated basis, $1,140,000, which is equivalent to the Company's equity in the net assets of CDCL at November 30, 1971, is included in Other Investments and Advances.

Also included in Other Investments and Advances are 6% notes receivable from key employees, received in payment for restricted Common Stock purchased under the Company's plan for the sale of restricted and unrestricted Common Stock to key employees (see Note 7) aggregating $398,000 at December 31, 1971. Of the total amount, $307,000, $22,000, and $69,000 is due in 1975, 1976, and 1977, respectively. The related shares of restricted Common Stock are pledged as collateral for such notes.

GAF CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Goodwill, which aggregated $36,465,000 at December 31, 1971, arose in connection with the purchase of other companies and businesses. At December 31, 1971, $2,918,000 represents the unamortized balance arising from acquisitions since October 31, 1970 (the effective date of the applicable Opinion of the Accounting Principles Board of the American Institute of Certified Public Accountants) which is being amortized by charges to income over a period of 40 years. The remaining balance, $33,547,000, which arose prior to November 1, 1970, is not being amortized since, in the opinion of management, there has been no diminution of value since acquisition. Goodwill arising prior to November 1, 1970 was reduced by $525,000 during 1971, principally by applying thereto certain income tax benefits realized through liquidation and merger into the Company of certain companies acquired in prior years.

Note 2—Extraordinary Items

Extraordinary items are summarized, and information relating thereto is set forth, in Note B to the statement of consolidated income, and reference is made to that note.

During 1970 the Company sold its Texas Amiben production facilities, abandoned its original facility in New Jersey, and renegotiated its Amiben supply contract. Under the arrangements relating to the sale, the Company leased the Texas facility and is continuing to manufacture Amiben for sale to the purchaser. This lease is for ten years, with a five year renewal option, at an annual rental of $150,000.

The extraordinary charge for 1969 relates to the program, initiated in 1969, to discontinue the manufacture and sale of certain products and to dispose of the related production facilities.

Note 3—Inventories

The following inventory amounts were used in computing cost of products sold:

	December 31,					
	1971	1970	1969	1968	1967	1966
	(In Thousands of Dollars)					
Finished goods	$ 78,405	$ 73,203	$ 76,304	$ 67,988	$ 55,731	$ 46,885
Work in process	33,368	33,755	35,004	31,999	29,470	27,654
Raw materials and supplies	44,631	39,948	40,919	36,945	35,755	31,209
Total	$156,404	$146,906	$152,227	$136,932	$120,956	$105,748

Inventories at December 31, 1971 included $2,229,000 relating to businesses purchased in 1971.

Inventories are priced at the lower of cost or market. Cost represents average cost or (as to certain subsidiaries) first-in, first-out cost. Market represents the lower of replacement cost or net realizable value.

GAF CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 4—Depreciation, Amortization, and Depletion Policy

It is the policy of the Company to provide for depreciation and amortization of plant properties generally at straight-line rates based on the estimated service lives of the property.

The ranges of annual depreciation and amortization rates generally were as follows:

Land improvements	2%-10%
Buildings and building equipment	1½%-10%
Machinery and equipment	3%-40%

Depletion of mineral properties is provided at fixed rates per ton of materials produced. Maintenance and repairs, and minor renewals and betterments are charged directly to expense. Additions and the more important renewals and betterments are capitalized.

Upon the sale or retirement of property, plant, and equipment, the cost and related accumulated depreciation are removed from the accounts; the resulting profit or loss is reflected in income.

Leasehold improvements are, in general, amortized on a straight-line basis over the terms of the respective leases.

NOTE 5—Income Taxes and Investment Tax Credit

Effective January 1, 1971 the Company has accounted for the investment tax credit arising since that date as a reduction of the provision for Federal income taxes (the flow-through method). Previously the investment tax credit was deferred and amortized over the estimated service lives of the related assets, and that method is being continued for investment tax credits which arose prior to January 1, 1971. The 1971 change recognizes that, based on previous experience, the Company's earnings are depressed during periods of heavy capital expenditures, as a result of start-up expenses and the non-income producing investment of funds, including those invested in initially excess capacity of facilities. The effect of this change was to increase income before extraordinary items and net income for 1971 by $1,068,000 ($.08 per common share, and $.05 per common share assuming full dilution). The provision for current Federal income taxes for the year ended December 31, 1971 was reduced by investment tax credit of $1,139,000.

Deferred income taxes have been provided in recognition of timing differences in reporting certain items of income and expense (principally accelerated depreciation) for income tax and financial statement purposes.

The Internal Revenue Service has proposed additional assessments of approximately $1,869,000, plus interest, for the years 1962 through 1965 for a company acquired in 1967. The Company is of the opinion that adequate provision has been made for any additional liability which might arise therefrom.

GAF CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Foreign income taxes included in the provision for Federal and foreign income taxes are as follows:

Year Ended December 31	Amount
1971	$2,356,000
1970	2,142,000
1969	1,005,000
1968	1,038,000
1967	1,303,000

Note 6—Long-term Debt and Dividend Restrictions

Long-term debt represents the balance of unsecured loans as follows:

5% Convertible Subordinated Notes due April 1, 1994 with annual prepayments of $10,000,000 beginning April 1, 1990, less $100,000 in treasury	$ 49,900,000
5⅞% Sinking Fund Debentures due December 1, 1991 with annual sinking fund payments of $2,500,000 beginning December 1, 1972, less $3,980,000 in treasury	46,020,000
Notes due May 1, 1974 with quarterly installments of $2,500,000 (Interest rate at ¼% of 1% above floating prime)	25,000,000
Notes due September 15, 1976 with quarterly installments of $1,000,000 beginning March 15, 1973 (Interest rate at floating prime through December 31, 1972 and increasing at specified dates thereafter to a maximum of ½ of 1% above floating prime)	15,000,000
4⅞% notes due June 30, 1972 with quarterly installments of $1,000,000	2,000,000
3½% notes due March 1, 1972	5,250,000
5½% Convertible Subordinated Notes due April 1, 1983 with annual prepayments of $200,000 on April 1, 1972 through 1982 and balance of $1,800,000 payable April 1, 1983	4,000,000
Other notes, with interest at 5⅜% to 9% in 1971 and maturing at various dates to 1986	4,713,000
Total	151,883,000
Less portion due within one year	17,957,000
Remainder	$133,926,000

The total amount of long-term debt maturing in the second year subsequent to December 31, 1971 is $17,227,000, in the third year $12,123,000, in the fourth year $7,117,000 and in the fifth year $6,077,000. The 5⅞% Sinking Fund Debentures held in treasury may be used to reduce the amount of the annual sinking fund payments. None of the long-term debt is pledged, held by or for the account of the Company, or held in sinking or other special funds, except for $3,980,000 of the 5⅞% Sinking Fund Debentures and $100,000 of 5% Convertible Subordinated Notes held in treasury at December 31, 1971.

The 5% Convertible Subordinated Notes are convertible into shares of Common Stock, at any time, at a conversion price of $27.50 per share (subject to future anti-dilution adjustments in specified circumstances). The 5½% Convertible Subordinated Notes are convertible into shares of Common Stock, at any time prior to April 2, 1976, at a conversion price of $28.72 per share (subject to future anti-dilution adjustments in specified circumstances).

Dividends are restricted under the provisions of certain loan agreements. Under the most restrictive of these provisions, approximately $206,000,000 of the consolidated retained earnings at December 31, 1971 was not available for dividends.

Note 7—Capital Stock

The $1.20 Convertible Preferred Stock, dividends on which are cumulative, is convertible, at any time, into Common Stock at the rate of 1¼ shares of Common Stock for each share of Preferred. At any time after June 1, 1972, the Company may redeem the Preferred Stock at specified prices ranging from $30.00 to $27.50 per share.

The voluntary or involuntary liquidation value of the 3,170,104 issued shares of $1.20 Convertible Preferred Stock, aggregating $87,178,000, exceeds the assigned value by $26.25 per share, or a total of $83,215,000. In the opinion of counsel for the Company, retained earnings are not restricted as to payment of dividends on Common Stock by reason of the liquidation preferences of the $1.20 Convertible Preferred Stock.

Under the provisions of the Company's stock option plan, options to purchase shares of Common Stock may be granted to key employees during a ten-year period ending March 31, 1975. The prices at which options may be granted may not be less than 100% of the fair market value of the shares on the date the option is granted. The options are exercisable after a one-year waiting period and terminate five years from date of grant.

Options outstanding at December 31, 1971 by year of grant were as follows:

Year of Grant	Option Price Per Share	Number of Shares	Total Option Price
1967	$25.375	17,000	$ 431,000
1968	22.19–25.375	111,750	2,610,000
1969	17.313	44,750	775,000
1970	10.1875–11.00	28,300	291,000
Total		201,800	$4,107,000

At December 31, 1971 there were 366,700 shares reserved for the granting of additional options.

Options became exercisable as follows:

Year Exercisable	Number of Shares	Option Price		Fair Market Value	
		Per Share	Total	Per Share	Total
1969	169,500	$22.19–25.375	$3,965,000	$17.875–28.812	$4,184,000
1970	50,500	17.313	874,000	10.062	508,000
1971	31,000	10.1875–11.00	319,000	19.687–19.937	611,000

Common Stock options exercised were as follows:

Year Ended December 31,	Number of Shares	Option Price		Fair Market Value	
		Per Share	Total	Per Share	Total
1969	2,800	$22.19–25.375	$66,000	$28.25–30.00	$82,000
1970	—	—	—	—	—
1971	3,700	10.1875–17.313	45,000	19.75–24.625	80,000

Options for 201,800 shares, having an aggregate option price of $4,107,000, were exercisable at December 31, 1971.

In addition to the above, at December 31, 1971, 2,815 shares of the $1.20 Convertible Preferred Stock were reserved for exercisable options assumed by the Company at the time of an earlier merger. $1.20 Convertible Preferred Stock options exercised were as follows:

Year Ended December 31,	Number of Shares	Option Price		Fair Market Value	
		Per Share	Total	Per Share	Total
1969	6,372	$13.50–20.00	$114,000	$32.50 –41.00	$237,000
1970	1,150	13.50–19.375	21,000	20.125–24.00	27,000
1971	7,840	13.50–18.375	140,000	21.00 –30.75	176,000

The proceeds from stock options exercised were credited to the Preferred and Common Stock accounts in the amount of the assigned or par values of the respective shares issued, and the excess was credited to paid-in surplus.

Under the provisions of the Company's Restricted and Unrestricted Stock Purchase Plan, 650,000 shares of Common Stock may be sold to key employees. Restricted and unrestricted shares may be sold at prices which are not less than 20% and 80%, respectively, of the closing market price preceding the date on which an employee is designated as one to whom shares may be offered for sale. The excess of quoted market value over the aggregate sales price for restricted shares sold is being amortized by charges to income over the restriction period. The unamortized balance to be amortized through the period ending January 15, 1980 amounted to $3,403,000 at December 31, 1971. At December 31, 1971, there were 437,000 shares of Common Stock available for sale under the Plan. Under certain conditions, the Company has the right to repurchase restricted shares of Common Stock at the original selling price. These repurchased shares are held in treasury pending resale under the Stock Purchase Plan. A summary of such transactions is as follows:

	1971		1970	
	Shares	Cost	Shares	Cost
Shares held in treasury, beginning of year	5,000	$27,000		
Shares repurchased	10,000	54,000	11,000	$59,000
Shares resold	(5,000)	(27,000)	(6,000)	(32,000)
Shares held in treasury, end of year	10,000	$54,000	5,000	$27,000

The shares held in treasury are included in Other Investments and Advances.

At December 31, 1971, the following number of shares of the Company's capital stock were reserved for issuance as follows:

$1.20 Convertible Preferred Stock:	
Reserved for exercise of stock options	2,815
Reserved for payment of deferred stock awards under incentive compensation plan	3,711
Total	6,526
Common Stock:	
Reserved for conversion of $1.20 Convertible Preferred Stock, including 8,158 shares for stock options and deferred stock awards	3,970,788
Reserved for exercise of stock options	568,500
Reserved for conversion of 5½% Convertible Subordinated Notes	139,279
Reserved for conversion of 5% Convertible Subordinated Notes	1,814,546
Reserved for sale under Restricted and Unrestricted Stock Purchase Plan	437,000
Total	6,930,113

None of the shares outstanding is held by or for the account of the issuer thereof and no shares, other than stated above, are reserved for officers and employees or for options, warrants, conversions, or other rights.

Note 8—Retirement Plans

The Company and its subsidiaries have several pension plans covering substantially all employees. The following is a summary of pension costs (See Note D to Statement of Consolidated Income):

Year Ended December 31	Amount
1971	$5,539,000
1970	3,667,000
1969	3,287,000
1968	3,778,000
1967	5,012,000

The total pension costs include, as to certain of the plans, amortization of prior service cost over periods ranging from ten to forty years. The Company's policy is to fund pension cost accrued. The estimated unfunded prior service cost at December 31, 1971 was $11,818,000.

NOTE 9—Commitments and Contingent Liabilities

Under the terms of a long-term lease obligation covering 3⅝% to 4¼% City of Annapolis, Missouri, industrial revenue bonds, an annual rental of approximately $385,000 is payable until September 30, 1983 to cover bond principal and interest. Such lease has been capitalized and the related liability is shown as Obligation Under Long-term Lease in the accompanying Consolidated Balance Sheet.

The Company was obligated under other long-term leases at December 31, 1971 as follows:

Leases Expiring In	Aggregate Annual Rental
2- 5 Years	$2,322,000
6-10 Years	618,000
11-20 Years	2,073,000
Over 20 Years	187,000

At December 31, 1971 the Company had commitments of approximately $13,019,000 for the acquisition of property, plant, and equipment.

At December 31, 1971 there were certain lawsuits and claims pending against the Company. In the opinion of management the ultimate disposition of these matters will not materially affect the Company's consolidated financial position. See "Description of Business—Litigation" elsewhere in this Prospectus.

NOTE 10—Supplementary Profit and Loss Information

The following table summarizes the information for the Company and its consolidated subsidiaries for the three years ended December 31, 1971:

	Charged Directly to Profit and Loss For the Year Ended December 31,		
	1971	1970	1969
Maintenance and repairs	$33,823,000	$30,889,000	$31,147,000
Depreciation, amortization and depletion of property, plant and equipment	23,393,000	20,923,000	19,973,000
Taxes, other than taxes on income:			
Social Security and unemployment	9,385,000	7,675,000	7,351,000
Real estate and personal property	5,590,000	5,239,000	4,831,000
Other	1,060,000	1,300,000	1,415,000
Management and service contract fees	—	—	—
Rents	12,022,000	11,296,000	8,136,000
Royalties	2,729,000	2,226,000	1,287,000
Advertising	15,518,000	11,513,000	13,756,000
Research and development	12,649,000	12,656,000	13,261,000

Note: Segregation between charges to cost of products sold and to expense is not practicable.